HOUSING FINANCE IN INDIA

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EDITED BY
K.S.R.N. SARMA

CENTRE FOR URBAN STUDIES
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE, RING ROAD, NEW DELHI-110002

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FOREWORD

The Sector specific development finance institution is a significant innovation in the field of public finance yet to be explored fully. The subject evokes critical interest of the scholars because of the claim that the arrangement facilitates a large inflow of capital funds towards the development activities of the sector concerned and also their efficient management. The first specialist finance institution to be set up in the country is the Industrial Development Bank of India. It was soon followed by the National Bank of Agriculture and Rural Development (NABARD) and the Exim Bank (for the trade). The National Housing Bank (NHB) whose launching was announced by the Prime Minister, Shri Rajiv Gandhi while presenting the Central Budget 1987-88, is an important milestone. It signifies a major policy shift towards financing housing, hithero considered as a social service sector and hence of low investment priority. The NHB concept is distinct from that of other sectoral financing institutions, as its focus is not confined just to augmenting the housing finances and catering to the needs of the house builders, but has an equal concern for funds mobilisation from the clients by encouraging them to save at higher levels. In fact, many envisage the NHB to be a new channel available to the government for promoting additional household savings.

The task set out for the NHB is, indeed, stupendous and the issues involved are many and complex. First, there are issues pertaining to the fiscal and other incentives to be provided to the NHB's clients, to encourage them to save at higher levels, with of course built-in safeguards to ensure that the capital funds now flowing to the other key sectors such as agriculture, industry, do not get diverted. The second set of issues are those enjoined in the organisational design of the NHB. Whether all the powers of policy formulation and enforcement be vested with the national level set-up, or any delegation at state level is desirable? How to help the field

level agencies to devise their own work procedures best suited to the varying situations, etc. ? The experience of the housing finance institutions of the developed countries of the West may not be relevant in resolving the above various issues as the capital market in India is yet to acquire a comparable range in the activities. The back-up institutions such as the secondary housing market, the mortgage insurance agencies are still to take their firm moorings. In addition, there may be many other delicate administrative problems to be confronted particularly, the inter-agency coordination. Constraints to be confronted could be serious because development of land including housing is a subject coming under the purview of the 'State List' under the Indian Constitution. The pace of house constructions, whether under the public auspices or private initiative, is determined to a considerable extent by the speed at which the municipal bodies, city development authorities and other authorities working under the state governments' auspices make available the developed land. How well the NHB could maintain the required level of liaison with the field agencies in this regard is a mute point.

The present volume contains a set of 12 theme papers presented and discussed at the National Workshop on Housing Finance organised by the IIPA's Centre for Urban Studies during March 4-5, 1986; the Workshop was intended to promote a national debate on the Seventh Plan Proposals on the subject, particularly the establishment of a National Housing Bank. Senior officers from the Union Ministries of Urban Development, Finance, Planning Commission, State Departments of Housing/Urban Development, State Housing Boards, Reserve Bank of India, Unit Trust of India, Life Insurance Corporation, the State Apex Housing Cooperatives, and the academics specialising in the subject area of housing participated in the workshop. It is heartening to learn that the issues discussed at the Workshop had received serious consideration of the government in the drafting of the bill on the NHB and giving it the operational shape.

The Government of India has taken a bold initiative in launching a specialist finance institution for augmenting the housing finance in the country. The step could be expected to go a long way in providing much needed succour

to the millions of the house aspirants who are eager to build a house of their own. Of course, any new institution is likely to face teething problems on legal, organisational and other fronts. But that need not deter the present initiatives. Organisational improvements could always be pursued through continuous monitoring and analysis of the field experiences and deducing therefrom, the appropriate solution. In this context, the present volume may prove very handy to focus the discussion on the relevant issues.

My thanks are due to Dr. K.S.R.N. Sarma for the efforts put in for organising a high level workshop on the subject of housing finance. Besides writing the theme paper on the general issues, and the resume of the discussions, he has edited the papers included in the present volume. I also would like to thank the Ministry of Urban Development, Government of India, for the financial assistance and other support extended in the present effort.

P.K. Umashankar

(P.K. UMASHANKAR)
Director
INDIAN INSTITUTE OF PUBLIC ADMINISTRATION

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The Editor would like to express his thanks to Shri P.K. Umashankar, Director, IIPA, for all the guidance and encouragement given in bringing out the present volume and also for writing the foreword for the book.

Many thanks are due to the colleagues on the faculty and the administration of IIPA for all the cooperation received in successful organisation of the National Workshop. Thanks are also due to the publication section of the IIPA for all the efforts put in in bringing out the present volume.

K.S.R.N. SARMA

INTRODUCTION

A two-day National Workshop on Housing Finance was organised by the Centre for Urban Studies of the Indian Institute of Public Administration during March 4-5, 1986. In all 58 delegates participated in the Workshop. They included secretaries of housing in various state governments, chief executives of housing boards, apex housing cooperatives, senior officers from Union ministries of Urban Development, Finance, Planning Commission and Reserve Bank of India, Life Insurance Corporation, Unit Trust of India, HUDCO, HDFC and academics from the IIM, Bangalore, Delhi University, Jawaharlal Nehru University, Society for Development Studies, the National Institute of Public Finance and Policy, School of Planning and Architecture, New Delhi, and NIUA.

The Workshop had three technical sessions: (*i*) The trends in the Housing Finance in India, (*ii*) Financial Management in the Housing Agencies, and (*iii*) National Housing Bank—Issues and Options. In all 16 papers and notes on various sub-themes were presented and discussed.*

The Workshop was inaugurated by Prof. Raja J. Chelliah, Member, Planning Commission and the session was presided over by Shri Ramesh Chandra, Secretary, Ministry of Urban Development. The concluding session was addressed by Prof. Brahmananda of Bombay University; Shri H.U. Bijlani, formerly Chairman and Managing Director. HUDCO; Prof. Gautam Mathur, Director, Institute of Applied Manpower Research, New Delhi; Shri K. Srinivasan, formerly Member of Board of Direct Taxes presided over the three technical sessions respectively. We are thankful to them all.

* In the present volume, however, only 12 papers are included.

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PART A

Presidential Address

Ramesh Chandra

Housing is a basic human need next only to food and clothing. This fact has been recognised in our successive five year plan documents. A point generally raised is, how this recognition stands translated into public policies, in the action programmes for house construction, in the work practices of the public housing agencies, etc. Problems confronting development schemes in the housing sector are too well known to be repeated. Housing shortage at present is estimated to be 18.8 million dwelling units in the rural areas and 5.9 million dwelling units in the urban areas. Supposing the construction of a dwelling unit in the rural area costs Rs. 8,000 and that in the urban area Rs. 30,000, the investment that is required to be made to cover the present housing shortage in the country is Rs. 32,740 crore. To this we have to add the demands expected to be generated in future. As against this, the total investment in housing during the first 27 years of planned development in the country is just Rs. 12,386 crore. Here again the public investment component is only about Rs. 2,646 crore. Even if one were to assume that in future all new houses would conform to scaled-down norms in respect of infrastructure and other facilities, the investments required to be made to cover the present shortage and also to keep pace with new demands, would be staggeringly high. There is, thus, an urgent need to initiate public policy measures to attract a larger flow of investible funds towards the housing sector. In this context, the Seventh Five Year Plan has proposed the establishment of a national level apex institution for housing finance. The experience of not only of this country, but also of many other developing countries is that wherever a specialised finance institution for a sector is established, the funds flow for the development schemes of that sector has generally improved. One may not have

apprehensions about the establishment of one more national level finance institution specially for housing on the ground that it might result in the diversion of funds from the priority schemes in agriculture and industry. It may, however, be assumed that the new savings would come from the household sector. After all, owning a house of one's own is an object nearest to the heart of many families. Through suitable saving instruments, it is hoped that the new institution would be in a position to mop up additional savings that the households may like to effect to possess a house of their own. What are the most appropriate saving instruments and what should be organisational format of the field units and how best they are to be interlinked with the state and national bodies are still open issues for detailed discussion. The Ministry of Urban Development is actively pursuing the answers to these questions. As explained by the workshop coordinator, the present workshop is a part of the efforts to promote a national debate in the above context. It is suggested that the present workshop may devote its attention, besides others, to the following aspects also. First, how best the schedule of the funds mobilisation and house construction for various income groups could be synchronised. Particularly in the case of housing for the poorer sections, a sample scheme like a client saving a rupee per day for his house may be better suited to deliver the goods than a scheme based on hundred per cent financial grant. Second, appropriate ways and means by which close working relations between housing finance agencies, and the secondary housing market are to be devised. Third, how an effective monitoring system has to be designed and operated. The Seventh Plan stipulates only 23 per cent of the housing investments by the public sector, the remaining 77 per cent is expected to be facilitated by the private initiatives. At present, there is no mechanism by which one could monitor and ensure that the envisaged private investments are actually effectuated. This deficiency needs to be rectified.

Inaugural Address

R.J. Chelliah

Housing assumes special significance in developmental efforts as it not only meets an essential need but also creates new employments, particularly in the urban and semi-urban areas. Housing shortage in the country stood at 24.7 million units and it is fast increasing. The Approach Paper to the Seventh Plan rightly recognised the need for a quantum jump in housing investments. The plan, however, has to settle for a moderate target, that too, with direct public investments limited to a bare one-third. This is so because the managers of the country's finances traditionally have not regarded housing as a priority area for allocation of plan funds. There is considerable reluctance for a change not only here, but also in respect of the allocation of institutional finances. The view that is generally subscribed to appears to be that scarce resource position does not allow any large scale public house construction activities. Such investments could only be undertaken through diversion of funds from the development schemes in the priority sectors. The common man may dispute this by pointing to the construction of huge office complexes, markets, cinemas, hotels, etc., and ask how the resources were not scarce for those investments but became so only for residential housing programmes. Any explanation that for a balanced economic growth such investments, *i.e.*, construction of hotels to promote tourism, etc., would be required may not be very convincing to the general public. An appropriate planning strategy should, therefore, recognise housing as one of the priority areas for development and explore the possibilities for resource mobilisation accordingly, say, in the form of additional savings from the household sector. In fact, if this line is followed, there may not be any need to divert funds from the other development sectors. If there were any diversions, such as from investment in gold ornaments, waste-

ful expenditures on marriages, etc., they have in fact, to be actively encouraged.

The various types of saving instruments that could help the mobilisation of additional savings from the household sector for housing programmes have been discussed in a study carried out a few years ago by the National Institute of Public Finance and Policy. One of the ideas that crystallised under that study was that there has to be a national level apex body for housing finance. It would perform four essential functions, *viz.*: (1) serve as a nodal point for the disbursement of institutional finances, *i.e.*, obtaining loans in bulk at low rates of interest and making them available to the field agencies actually dealing with house constructions; (2) perform regulatory functions so that the commonly agreed strategies both in the matter of savings mobilisation and in loans disbursement are followed by all the field level agencies; (3) ensuring equitable distribution of mobilised funds among various regions and categories of client groups; (4) taking care of the efforts in the related areas such as reforms in the rent control legislation, development of secondary housing market, developing new instruments of savings mobilisations from the household sector, etc.

There are strong lobbies which are opposed to the idea of a centralised housing finance institution and that, too, under the public sector. Citing the experience under nationalised commercial banks, it is suggested that wherever there is government intervention, a major casualty is work efficiency. Therefore, instead of setting up one more public sector institution, preference be given to encourage a number of HDFC type of housing finance institutions to come up in the private sector. HDFC, Bombay, has done pioneering work in the field of housing finance. It may, however, be stated that when HDFC was started by very distinguished personalities in the field of finance, it was a unique experiment and the government also wanted it to be a success. For the same reason, a number of concessions were extended to it, like allowing HDFC to float bonds with exemption under Section 89 (L) of the Income Tax Act and so on. Without governmental encouragement, it is doubtful whether HDFC would have achieved the level of success it has. The same type of favoured treatment

cannot be extended to sundry private sector housing finance companies. Private firms could be allowed to come up and operate only under a clearly spelt charter. To ensure proper compliance of those charter provisions, there has to be strict surveillance, a responsibility that could be exercised only by a national level public authority.

There is a suggestion to encourage the state governments to set up UTI type of financial institutions for housing. Since the deposits inflow to such institutions would largely be influenced by the related tax incentives and other concessions available, the strategies in their regard have to be necessarily evolved at the national level. In addition, only a national-level authority would be in a position to effectively arbitrate and fix the quotas for mobilisation by different state institutions. Otherwise, state institutions in an advantageous position, say those of Maharashtra, Gujarat, etc., may appropriate most of the available deposits, starving others for funds. Further, for reasons of economies of scale also, some of the institutions from the smaller states may require a national agency to mobilise deposits on their behalf. It is evident that the case for a national housing finance institution in the public sector is fairly strong.

There are, however, still some issues that need detailed debate. The first is whether the national housing finance institution should be in the form of a bank, *i.e.*, mobilising deposits and disbursing loans directly or its functions be limited to evolving the national strategies and exercising general coordination over the state and regional level institutions. The second issue is concerned with the determination of priority areas for investments by the housing finance institutions. Taking the second issue first, this matter has to be settled in relation to the activity-thrust of HUDCO. Over the years, HUDCO has come to concentrate on housing for the weaker sections. Besides providing cheap finances for that purpose, it has been encouraging low-cost construction technologies, in giving new orientation to the provision of infrastructure facilities. In fact, there has been strong opinion in favour of entrusting the apex housing finance function to HUDCO. However, this would over burden that organisation and may distract it from the course of action it has success-

fully chalked out for itself over the years. To look after the financing needs of people other than the weaker sections, an additional institution is required. HUDCO and the proposed apex body for the housing finance could, therefore, have roles which complement each other. As regards the organisational format of the apex housing finance institution, the Seventh Plan expressed its preference for a bank type. A decentralised network of agencies both for deposit mobilisation and loans disbursement is essential for effectively meeting the clients' needs. But, as already pointed out, the field level agencies may not on their own be in a position to mobilise large deposits. The task has to be necessarily undertaken by the state or national level bodies. This, in turn, requires evolving suitable inter-linkages between the national and state level bodies on the one hand, and with the field level agencies, on the other. The relationship between the housing cooperatives and their apex bodies in most states has not always been very smooth. That type of experience should be avoided in the proposed set-up. Also there have to be enough safeguards against purely commercial units coming up and forming part of the housing finance network. Surely, the proposed set-up cannot be allowed to be exploited by the real estate agencies for setting up commercial complexes like Bhikaji Cama Place in South Delhi. The concessions extended by the state should be available only for fulfilling well accepted social causes.

It needs to be reiterated that housing finance is one of the areas of public finance which has not received enough attention in this country. Its full potential is yet to be explored and exploited. The present stage of the country's economic development does not allow any complacency in the matter of providing a basic human need like shelter to the millions of homeless in the country. The steep imbalance in the demand and supply situations has already pushed housing prices quite beyond the reach of those very millions who require adequate shelter most. This situation cannot be allowed to deteriorate. In developed countries, an individual has a wide range of choice in the matter of housing, almost right at the start of his working life. When compared with those standards, India trails far behind. Before it is too late,

action programmes must be initiated to work towards that type of progress. The Seventh Plan document has indicated only a broad framework for a National Housing Bank and a number of issues are still to be finalised.

Resume of the Seminar

TECHNICAL SESSION I

Initiating the discussion Prof. T. Krishna Kumar argued that the problem of acute housing shortage in the country could be attributed, besides other reasons, to the very narrow and disjointed policies pursued by the government all along in respect of the housing sector. If the present housing problems were to be satisfactorily tackled, a strategic planning approach of the business organisations may have to be adopted. The demand for housing, though location-specific, is largely influenced by factors such as levels of income, commutation to the place of work, schooling, health care and other requirements of the clients. Availability of all these in turn, is determined by the various related governmental programmes. Similarly, on the supply side of housing also, the availability of the inputs for housing such as cement, steel and skilled manpower, all of which have alternative uses, depends upon the stand of the government in fixing the priorities in the use of those resources. An ideal situation to stimulate house construction activities would be an increasing marketisation of housing, *i.e.*, interaction of both the demand and supply sides of housing to as large an extent as possible in the organised market for physical assets. The situation requires liberal credit facilities to the suppliers and purchasers of houses from the formal sector financial institutions. Here, a general criticism is that the existing regulations of the commercial banks' operations are not very conducive for the people to save more with them for future investment in their housing. Part of the household savings that otherwise would have flowed into housing investments, gets diverted as deposits with the informal sector non-banking financial agencies. According to a recent publication of the CSO, household savings constitute about 15.75 per cent of the

disposable income of the people, of which as much as 25 per cent is held in the form of currency outside the banking system. According to another source, the 30,000 and odd non-banking financial agencies currently operating in the country in the informal sector were holding a sum of Rs. 45,000 crore as deposits with them during 1980. Incidentally, the above figure is slightly more than the amount of deposits held by all the nationalised banks put together. The figures cited clearly suggest the potential for mobilisation of household savings for investment in housing. A general ban on funds mobilisation by the informal sector non-banking institutions may not be of much help. But public agencies too could adopt the same methods to attract funds for investments in housing. In addition to the procedural reforms among the public housing finance institutions, there have to be supplementary efforts like the establishment of a national house mortgage insurance corporation, amendments in the Rent Control Legislation, etc. These are necessary to encourage more and more people to invest in housing. Declaring housing as an industry is another step that could facilitate the flow of commercial bank credit for the producers of housing inputs. Since the construction of residential houses is highly labour-intensive and decentralised activity with strong forward and backward linkages with a number of productive sectors of the economy, an increased flow of funds to the housing sector is bound to bring in its wake a number of socio-economic benefits. This fact, therefore, needs to be given due recognition while evolving the future policies in regard to the credit flows to the housing sector.

Shri P.S.A. Sundaram in his paper observed that a close liaison between the public housing agencies and the financial institutions interested in housing investments such as HUDCO, HDFC, and cooperative housing finance societies is essential to create the necessary atmosphere for people to save at higher levels and invest in housing. Studies in the past have indicated that the peoples' motivation to save for investments in housing is determined by several factors including the speed at which city development authorities make available serviced house plots, the pace at which the slum improvement programmes are undertaken, facilities for

imparting the new construction technologies, etc. The close linkage between the public housing agencies and the housing finance institutions is also vital for deciding the organisational format and work procedures of the field level units of the latter. The Maharashtra Housing Development Authority has recently carried out household savings surveys in selected towns in that state with a view to identify appropriate instruments for savings mobilisation, and for investment in housing. Some of the major findings are as under: People in the formal sector employments tend to save more with the commercial banks, whereas those earning wages from the informal sector vocations keep their savings, which are relatively very low in comparison to the former, with the non-banking agencics in the informal sector. People, irrespective of the level and source of their income, are willing to effect savings at higher levels than at present, and invest them with the public housing agencies provided the latter could give an assurance about the supply of a house plot/house to them by a future date. In this connection it is also noticed that the savings mobilisation and house loans need not be tied down to a fixed pattern for all, *i.e.*, provision of a fully developed house and the loan recovery in equated instalments. Schemes devised on the pattern of the Philippine's 'freedom to build' may be tried in this country also. As regards the field level agencies, the existing branches of the commercial banks, agents of the LIC, UTI and even the municipal body of the area concerned could take up the responsibility for the savings mobilisation and house loan disbursement.

Dr. B.L. Pandit presenting his paper observed that the household is the only surplus sector in the economy. The recent upsurge in the aggregate savings in the economy is largely on account of the phenomenal increase in the household savings. A good proportion of these are being held in the form of financial assets. Out of the household savings of Rs. 18,230 crore during 1981-82, nearly 52 per cent are held in the form of financial assets and this proportion is fast rising. Again, among the financial assets, a very large percentage is held in the form of free savings, *i.e.*, as deposits with banking and non-banking institutions. In contrast, the proportion of savings going for the acquisition of fixed assets,

particularly housing, is very small. During 1981-82, only 2.3 per cent of the household income has been invested in housing. Further, the above percentage is just 0.25 in the case of low income groups. It is argued that the steady growth in the households' investments in financial assets is largely on account of the expansion of the intermediation facilities in that regard. So by providing the same kind of intermediation, the savings flow to the housing sector could also be helped to be improved. For that purpose, it is suggested that besides a national housing bank, a housing loan insurance corporation, a secondary market for house assets should also be established.

Dr. Arun Kumar in his paper argued that it is very naive to expect that the people with black money funds would ever be forthcoming to invest in social housing for the poor, even if the government extends concessions for that purpose. This is so because the real estate operations themselves are a major source of black money generation. A constellation of factors seems to be encouraging speculation and black money generation in the urban real estate market. First is the inability of the supply to catch up in pace with the steep rise in the demand for housing resulting from rapid urbanisation. The second is the difficulty in an objective determination of the prices of houses in urban areas owing to the distortions caused by factors like zoning regulations, differential availability of infrastructural facilities in different localities, etc. The third is the high premium on successful under-reporting of the purchase prices as it would help in the evasion of property-value-based taxes such as municipal property tax, wealth tax and transfer duty. The speculators are able to thrive because the people who already have black money funds with them, would be willing to pay substantial unofficial margins for possessing the real estates that are facility-wise better situated. The result of all these is that the low income and poor income sections of the urban populations are gradually pushed to the peripheral areas with poor infrastructural facilities. If the speculative operations and steep rise in the prices of urban real estate are to be curbed, the supply of houses has to increase manifold. In this connection, three public policy measures may make

significant contributions. The first is the policy for the dispersed growth of the urban centres. The second is ensuring minimal differentials in the availability of infrastructure facilities as between different size/class cities, and within the cities among different zones. The third is the expansion of institutional finances to encourage house construction by individuals, or by their employers. One more reform that may also be given serious thought pertains to the nationalisation of the right to transfer real estate.

Shri Raj Nandy was of the view that housing could not be regarded as an industry for it does not satisfy an essential qualification, *viz.*, mass production of units in the places with considerable production advantages and transporting them for supply in the places of high demand. He expressed fears that the industry status for housing might result in further aggravation of black money operations and exploitation by the real estate sharks.

Shri G.C. Mathur argued that the major problem confronting housing development in the country is the speedy construction of houses at prices affordable by the large majority. All efforts, therefore, should be on costs reduction. But the move for bringing all housing activities under the fold of the formal market may end up in cost escalation. For, it is generally observed that an informal sector agency is in a better position to offer services at much cheaper prices than a formal agency. An individual house builder could be expected to save up to 40 per cent of the costs in comparison to the construction under the auspices of a public housing agency as the latter has to provide 20 per cent towards overhead cost and 20 per cent as payment to the contractor.

Shri V. V. Subramanyam, referring to the supply side of the housing system, observed that one may not view with alarm the resources outflows in the form of use of land, cement, etc., as there would be corresponding inflows into the system in the form of increased employment, incomes and savings. Expansion of the mortgage finance facilities may not be of much consequence as far as housing the urban poor is concerned. Often people living in urban slums do not have anything to offer as securities to avail the mortgage loans under various public housing schemes. Even if housing loans

were to be provided without securities, the incomes of a good number of slum dwellers are such that they may not be in a position to honour the periodic repayment obligations. By the same token, the concept of freedom to build and toning-up credit facilities accordingly may not work in the context of the urban poor in India as their incomes are both low and fluctuating. So in the order of their marginalisations, shelter does not always occupy a very high place. They would, therefore, be least interested to spend their savings on improving their shelter.

Shri R.S. Verma did not agree with the view that formal sector agencies could not effectively extend housing finances to the poor. He recalled that under HUDCO financing, 55 per cent of the loan is required to be spent on housing the economically weaker sections. Failure of the public housing agencies to meet the needs is mainly on account of the limited finances at their disposal.

Mrs. Sarala Gopalan clarified that the demand for an industry status to housing is mainly for the purposes of securing credit facilities from the banking system both to the house builders and also to those engaged in the production of housing inputs in the same manner as available to the entrepreneurs of the small-scale industry. In some of the developed countries, housing accounts for as high as 20 per cent of the total employment, whereas in India at present it is only two per cent. Thus there is considerable employment potential in housing that is yet to be tapped and it would be unwise not to do so, particularly when employment generation is one of the prime objectives of planning in India. Besides, increased credit facilities for house construction could also be expected to bring back returns to the banking system in the form of savings inflows from the new employments. As regards the low cost reported in respect of the informal sector constructions, one has to examine whether they are through the non-observance of the statutory norms in respect of payment of minimum wages, quality of building materials used, etc. If there are large scale contraventions, it makes all the more important that those activities should be brought under the fold of formal arrangements. At present there is considerable reluctance even among the public housing agencies to adopt

innovative and cost-effective construction technologies. An industry status for housing, it is hoped, would change the position for the better in this regard also.

Shri J.S. Rao observed that the housing finance has three aspects. The first is the investment aspect dealing with the expansion of production processes of housing inputs and the speeding up of construction activities. The second is the consumption aspect, concerned with the paying capacities of the clients for the purchase or take on rent the houses that are constructed. The third is the resource mobilisation aspect, about the savings flow-back for future housing investments. For a healthy development of the housing sector, all the above three aspects of housing finance have to be carefully considered and the policies and programmes have to be so evolved to ensure an ever-enlarging cyclical flow of funds for the sector. If the objective of catering to the housing needs of low income and economically weaker sections is to be met, there has to be appropriate back-up efforts, in addition to the credit extension, through measures such as speedy development of land and relaxation of building bye-laws.

Prof. H.U. Bijlani, the Session Chairman, in his concluding remarks, agreed with the suggestion for according industry status to housing. A major handicap in evolving suitable policies in respect of housing finance is the great dearth of data about the amounts actually spent by the people on their housing, the sources from which they were raised, etc. It is not advisable to adopt strategies modelled on the experiences of the developed countries as the conditions and the peoples' attitudes towards the law enforcement there and in India are entirely different. A major chunk of the public effort in this country has to be devoted to education among the communities about the benefits of clean and safe living environments. Once there is a better appreciation, the enforcement of the legislations, the house loan recovery schedules, etc., could be expected to be more effective. As regards house construction technologies, research efforts have to aim at the twin objectives of low costs and intensive use of labour. There has to be full-scale encouragement to the household and cottage industry establishments to produce various housing inputs. Referring to the institutional framework for the housing

finance system, Prof. Bijlani pointed out to the need to encourage a variety of organisational forms and also different types of saving mobilisation instruments and mortgage coverages.

TECHNICAL SESSION II

The first paper presented in the session was by Mrs. Sarala Gopalan. She observed that the low and poor income groups find it difficult to raise funds from private sources for the construction of their houses because of their low repaying capacity. The scope is no larger either for the public agencies to provide subsidized housing in their case, as the agencies themselves are required to raise their capital mainly through borrowings. Cost recoveries from the allottees of the houses is, therefore, a crucial constituent in the scheme of managing the finances of those agencies. But the experience of most of the public housing agencies in this regard cannot be stated to be very satisfactory. For example, in the case of the Kerala Housing Board, the loan recoveries in respect of economically weaker sections housing are just around 25 per cent. A major reason for the defaults is the high costs of the houses. Though originally designed to be within the affordable limits of the different income categories, the costs go beyond those limits because of the delays in implementation and rise in the prices of inputs, etc. Also, the inconvenient timing and collection procedures, and the interference by local politicians tend to erode the rate of collection of instalments. The experience of the Kerala Housing Board in recent years is that the recovery rates could be considerably improved by adopting innovative procedures for that purpose. Some of the new procedures successfully tried include: entrusting the task of collecting instalments to the local primary cooperative bank, engaging the local functionary of the revenue department on additional remuneration, to pursue the collections, adopting varying instalment periodicities to suit the peculiar income generating patterns of the concerned client groups, linking borrowers to the organisation with which they have to deal occupationally, etc.

Shri M. Sivaramakrishna stated that HDFC can claim the

credit for many operational innovations in the field of housing finance in the country. Through a very meticulous appraisal procedure at the time of loan sanction, it has been able to maintain a recovery rate of nearly 98 per cent. Its new group house loan scheme for persons employed in a single organisation, with suitable guarantee from the employer concerned, is fast becoming popular. In the event of default, instead of taking a formal and legalistic view, HDFC generally counsels and persuades the client. As regards savings mobilisation, it recently launched a savings-linked house loan scheme on the pattern of a similar scheme now in vague in West Germany. An advantage of the scheme is that it would make available cheap funds for disbursal to individual house builders. To give the required fillip to the schemes such as above, it is suggested that the concessions under the sections 32 (i) (iv); 54 (E); 80c; and 80L of the Income Tax Act may be extended to cover the operations of housing finance institutions like HDFC.

Shri C.S. Rao in his paper argued that the subject of housing finance needs to be discussed in a broader connotation to include the financing of not only the construction of house structures but also the augmentation of infrastructure facilities that go in tandem in the development of a housing settlement. As resources with the government are limited, its strategy in the recent years towards housing finance has been to limit the public intervention mainly to the development of infrastructure facilities and to the construction of homes for poor and low income sections. A review of the two major social housing schemes, *viz.*, the Environmental Improvement Scheme and the Sites and Services Scheme clearly indicated the need for an accelerated development of the serviced house sites and for involving the prospective clients in the design and execution of the housing schemes. It is hoped that the deficiencies in above respects would largely be overcome with the establishment of an Urban Infrastructure Development Corporation and successful extension of the Urban Basic Services Scheme, as envisaged in the Seventh Five Plan.

Shri C.S. Chandrasekhara argued that substantial investments are at present made by the private agencies in the construction of commercial complexes, cinema halls and luxury

residential houses. A portion of these investments could be attracted towards the construction of houses for the low and middle income sections provided the government creates a congenial atmosphere for the same. In this connection some misconceptions about private construction agencies have to be corrected. First, that only the public housing agencies would be able to provide cost-effective housing for the poor and low income groups. The second, is the role of middle men. The constraints under which public agencies have to operate in this country are such that the gap between them and their clients is usually very large. Middle-men in one form or other are most likely to appear on the scene to bridge that gap. The third misconception pertains to the interest of the private construction agencies in social housing. Here it may be stated that the *chawls* in Bombay, *ahatas* in Calcutta are constructed and managed by the private sector agencies. The fourth misconception is about promoting rental housing. The emphasis all along has been on ownership housing. It could not make any effective dent on the housing needs of many sections of society. Therefore, rental housing under private auspices may also be attempted. Finally, that instead of reducing the housing norms for the weaker sections, the efforts have to be directed on improving the incomes and thus affordability of the seekers of the houses.

Shri V.V. Subrahmanyam observed that the administration of cost-recovery in the case of social housing for the poor is beset with a number of problems. An allottee of public housing has to pay, besides the loan instalment for the house, the lease charge for the land development authority, municipal property tax, service charges for the water supply, electricity, etc., which all add up to be a substantial amount. The defaults, therefore, are not uncommon. The remedy seems to lie in substantially bringing down the costs of the houses and the amenities that go along with them. Particularly in the case of public housing for the weaker sections, additional care has to be taken to ensure that their settlements are proximate to the places of their work. In evaluating the costs and benefits of such locational decisions, the fact that the poor provide essential services to the growth of the urban economies should not be lost sight of. The same criterion should also be

applied in fixing the housing subsidies and the amounts of the house loan instalments recoverable from them.

Shri Aromar Revi observed that a number of innovative and enlightened housing programmes such as the Aided Self-Help Housing in Kerala, the Urban Community Development Programme in Hyderabad, the Ahmedabad Study and Action Group housing in Ahmedabad, have set the pace for a change in the housing policy of the country extending its range of concern from finance and institutional design, to aspects such as role of local enterprise in increasing the production of building material and the need for increased user participation. The issue of participation assumes critical importance because of the vast gaps now existing among all the three main participants in the housing development, *viz.*, the government housing agencies, the private agencies in the formal housing market and the innumerable house builders in the non-formal sector. It is a critical component not only in evolving macro-level policies but also in the micro-level building operations. The areas of participation of major concern are production of building materials, design and adoption of new construction technologies, improving the skills of the manpower and increased flow of finances and energy saving. There are at present very little information flows in regard to the above between the government and formal sector housing agencies, on one side, and the majority of the non-formal sector house builders, on the other. One could say that the above is a sequel to the non systemic approach to problem-solving on the part of the public policy makers. The policies and programmes reflect the attempts to impose certain *a priori* solutions such as classification of clients into different income groups, construction of houses according to a present design rather than in consultation with prospective clients, etc. As regards the Seventh Plan proposal for setting up of a National Housing Bank, it may be stated that though the availability of credit and other innovations in financial management are crucial, it would be an insufficient reform as far as the efforts to accelerate the construction of houses for the low and poor income sections are concerned. The National Housing Bank proposal does not seem to have adequate linkages with the information and decision support systems in

respect of social development, technical skills improvement, and increased building material production. An effective way to ameliorate the housing position of the poor at affordable costs, is to adopt extensively the innovations in the already existing construction technologies, and use of local building materials as is done by the non-formal sector builders. It would, therefore, be essential that future policies and programmes are evolved in consultation with the clients rather than through the imposition of solutions from above.

Shri Prashar stated that the Haryana Housing Board has achieved almost complete success in the matter of loans recovery under its urban housing schemes during the past couple of years. This was made possible through the appointment of a local functionary, the estate manager. In all the major housing schemes the Estate Managers so engaged have been assigned the responsibility and powers for the loan recoveries in full and in time.

Shri R.S. Verma stated that unlike Kerala, in many other states the cooperative banking system has not extensively developed, so the Kerala experiment of associating the cooperative banks in the house loan recovery processes may not be replicable in their case. Instead, it may be advantageous to associate in the task the village-level functionaries such as *Patwaris* and *numbardars*. A major reason for the high default rate often noticed in the case of rural housing is that certain sections of the rural poor like those belonging to the scheduled castes, are provided the required finances in the form of grants, whereas for housing the other sections, the finances are provided in the form of loans. This differential approach is confusing to the clients. It is suggested that in future, whenever the Central Government launches a new housing scheme for the poor, the administrative aspects involved in the cost recovery, therefore, be given due attention.

Shri D.S. Varma stated that the Lucknow Development Authority is presently locked-up with the problem of unrecovered loans to the tune of Rs. 16 to 17 crore under its housing schemes for the economically weaker sections. There is no hope of early recovery because of the political interventions. The tight funds position imposed a serious handicap on the Authority in taking up new schemes.

The chairman of the session, Prof. Gautam Mathur, in his concluding remarks, observed that the question of cost recoveries from the public housing programmes need to be examined in the broad prospective of resource transfers that take place in the society as a sequel to the various public finance measures that the government may be adopting for funds mobilisation. For instance, when a certain amount of cement is used in the construction of public houses for the economically weaker sections, the non-availability of cement to that extent for lining an irrigation canal results in the loss of certain amount of foodgrains production. Because of the high degree of inflation prevailing, the value of the loan instalments that the allottees of the public houses may be repaying over the years may be much lower than the losses that occurred on account of reduced foodgrains production. But the resources allocation in the ultimate analysis is a matter of social option. The social losses in the above case could, however, be reduced if the government takes very stringent measures to control inflation by curtailing the socially undesirable expenditures say through expenditures taxation. When people are compelled to avoid unproductive expenditures, the levels of savings and thus funds available for capital investments would be larger. Second, when the productive resources are not diverted to the socially less urgent activities, the level of their availability for the more desirable ones would also be higher. On both counts, costs of production could be expected to come down. Thus when the cost of construction of houses is brought down, the amounts of loan instalments to be repaid would also be low and as a sequel the recovery rates could also be expected to be high.

TECHNICAL SESSION III

Shri I. Chaudhuri, presenting his paper, observed that a viable and self-reliant housing finance system is still a long way from reality in this country. At present the provision of housing finance through formal sector institutions is not only very limited but mostly indirect. It is the considered view of the experts that the key for the rapid growth of the housing sector lies largely in giving a fillip to the direct financing of

house building. The commercial banks earmark just 0.5 per cent, *i.e.,* Rs. 150 crore of their total credit, for investment in housing, but even that amount is largely left undisbursed. Direct loans to the house builders hardly ever exceeded Rs. 12 crore per annum. The challenges are no doubt formidable and they call for adoption of some really new and innovative approaches.

In recent years, middle income families have been observed to be saving more and investing in company shares, though they are highly risk-prone. Rate of return and liquidity seems to be the major considerations. But people also make some investments in the form of 'bridging funds'. The latter investments and also the moneys spent on marriages, etc., could be easily attracted towards housing investments if the terms offered are fairly comparable with the alternatives. For this the saving instruments proposed by the housing finance agencies have to be varied. *i.e.*, in various combinations of the associated rate of interest, fiscal and other incentives. Besides the household savings, efforts also need to be made to tap the surpluses from the corporate sector with suitable approaches. Similarly, on the lending side also the loan repayment options have to be as varied as possible to suit the income earning and repaying capacity patterns of the prospective house builders. Some of the mortgage loan forms are the fixed repayment instalments mortgage, sequentially escalating mortgage, roll-over mortgage, blocked compensation and balance mortgage. The framework of housing finance agencies has to be such as to allow various forms of flexible work procedures to reach as wide a cross-section of the people as possible. The system has to evoke confidence among the prospective depositors of funds and loan seekers that their special needs would be met. The existing housing finance institutions, *viz.*, HUDCO, HDFC, Housing Finance Apex Cooperatives, have over the years, come to acquire certain orientations in their activities and as such it may not be advisable now to bring a change in their priorities.

Shri S.K. Sharma, in his paper, observed that the two parameters that are to largely guide the institutional development in the area of housing finance in the country are the provision of houses at affordable costs to clients who predominantly belong to the low and poor income classifications.

and the stepping up of financial mobilisations for housing investments to bridge the wide gap presently existing between the requirements and the availability. In this context, the HUDCO has over the years come to occupy a unique position not only as the largest provider of institutional finance for the sector but also through the distinct features of its financing. The first notable feature of the HUDCO financing is that nearly 80 per cent of the housing units promoted by it are to be for the low income and economically weaker sections. The second is that it is the only agency to extend institutional finance for rural housing, where the public intervention has all along been confined to the provision of some small quantum of construction grants. The third distinct feature is that apart from making available the finances, HUDCO also helps the state and local housing agencies with technology transfers and objective project formulations to realise construction economies. As regards the promotion of saving habits among the people for investments in housing, the idea has long been put into practice by Housing Boards and Housing Cooperatives by insisting on registration deposits, contribution to share capital respectively from their prospective clients. This may not, however, be construed as underestimating the need for concerted efforts to mobilise household savings for housing investments and establishment of new institutions specially for that purpose. New institutions are also required for provision of housing mortgage insurance and secondary market for the housing mortgages. If all these institutions are to be developed efficiently and also avoid the duplication of efforts, an imperative need exists for a National Housing Policy. It has to clearly spell out the role delineations of the various involved institutions. Parliament may pass a National Housing Act to give the necessary statutory back-up to the above arrangements. To augment housing finances, besides the household savings, the possibility of mobilisations from the provident fund savings, through a cess on employers for housing development, may also be explored.

Dr. Vinay D. Lall referred to the two issues raised by some in connection with the National Housing Bank, *viz.*, (*i*) whether the tasks expected to be performed by that bank could be performed by the existing institutions, and (*ii*) whether the

establishment of a separate National Housing Bank would result in additional savings mobilisation. In respect of the first issue, the answer is that, the existing institutions have special orientation to their work activities, wherein housing finance may not be the priority one. For instance, the Life Insurance Corporation's primary concern is to protect the interests of its policy holders and for the Unit Trust of India the rate of return it could offer to the units holders is a vital factor in influencing its investment decisions. HUDCO's area of priority concern is the construction of weaker section housing, and HDFC has over the years come to concentrate on the salaried class clients. The establishment of a separate national apex body is therefore felt necessary to concentrate on financial mobilisations for housing. As regards the second issue, a recent study on household savings in Maharashtra has pointed out that the urban dwellers are willing to save at higher levels, provided an assurance is given by the public housing agency that they could expect to acquire a house of their own at some future date.

Shri J.S. Rao suggested that in addition to the National Housing Bank, two more agencies at the national level may be established. The first is the National Commission on Housing to lay down the broad policies and programmes for housing development in the country, to apportion responsibilities to the involved agencies at various levels, to suggest suitable fiscal incentives, etc. The second agency is the National Housing Board to be in overall charge of the administration of the housing programmes at the all-India level. It is to be backed by National Housing Act, so that the required compliance from all the involved agencies, at the all-India, state and regional levels would be forthcoming. The National Housing Bank has to work in close liaison with the National Housing Board to maintain the required coordination in the resource mobilisation and its utilisation in the house construction activities. A suggestion that may be given due consideration, is to require all salaried employees to save compulsorily for their housing in the same way as the group insurance schemes now in vogue.

Shri G.C. Mathur referred to the findings of a sample study conducted recently by the NBO, on women construction workers in Delhi, and suggested that women could act,

as a major motivators in the families to save more for the possession of a house. There seem to be three prerequisites. The first is some institutional arrangement for collection of savings effected by the women periodically and return the moneys thus saved when the families concerned decide to construct their house. It is noticed that the construction families pay as high a rent as Rs. 40 to 50 per month for their unauthorized *jhuggis* and could save up to Rs. 90 per month if only some regular house plot, however small is allotted to them. The second requirement is that the plot so allotted has to be in the joint names of husband and wife. The third is that the women and family members should be given some rudimentary training to make the best use of their labour and other resources at their disposal in the construction of their house.

Shri L.C. Gupta agreed with Shri S.K. Sharma that there has to be a comprehensive National Housing Policy to give direction to the housing construction activities both in the public and private sectors. National Housing Bank may be established under an Act of Parliament. One may not entertain any doubts about the advisability of setting up a separate national level apex institution for housing finance. Similar doubts were aired at the time of setting up of HUDCO in the early 1970s. At that time only about Rs. 20 crore used to be advanced by the LIC as loans to a handful of state housing boards, but during the last one and a half decade of its operation, the HUDCO has achieved a turnover of many times that figure, and in the process also helped to come into being housing boards in many states. This, incidentally, should dispel the doubts about the National Housing Bank establishing a network of state and regional level housing finance institutions.

Shri Hoshangadi, referring to the criticism about the role of the commercial banks *vis-a-vis* housing finance, argued that there are many considerations that govern their credit operations. The RBI guidelines in the matter require that 40 per cent of the credit funds should be available for the development of priority sectors. In addition, credit is also to be advanced to support a variety of operations such as procurement of foodgrains, distribution of petroleum products and cotton, etc.

At the same time it is to be ensured that there is no adverse impact on the commodity prices. With a view to control inflation, the RBI has all along been pursuing a 'Controlled Credit Extension Policy'. Housing was included in the RBI's guidelines to the commercial banks for the first time in 1976, when it appointed a working group, known as R.C. Shah Committee, to study the problems of housing finance in the country and the role that the commercial banks could play in that regard. As the follow-up of that committee's report, commercial banks have been required (from the year 1979) to earmark 0.5 per cent of their total credit for housing sector activities. The commercial banks, however, found it difficult to meet even this very low quota through direct lendings. Out of the cumulative quota of Rs. 800 crore, uptil now, they could disburse only 400 crore, that too mostly through indirect financing, *i.e.*, subscribing to the bonds of HUDCO, Housing Boards, etc. The Shah Committee recognised the need for setting up of an apex body to be in overall charge of housing finance system and expected that work to be entrusted to the HUDCO. The Seventh Plan, however, envisaged the establishment of a separate National Housing Bank. The Reserve Bank is now examining the proposals of the Ministry of Urban Development in the above regard. To justify the establishment a new institutional set-up, it has to be first proved beyond doubt that it will help in the mobilisation of additional savings from the household sector. The second point is that at the time of the establishment of the NABARD and IDBI as the national level apex bodies, there were already extensive networks of agencies at the field level operating in agriculture and industry sectors. Unfortunately, this has not been the case in regard to housing finance. The point is whether the establishment of the national apex body could be deferred for the time being and the attention devoted to the development of the field level agencies. The third point for consideration is that both NABARD and IDBI are fully autonomous and the regulatory framework of the RBI for the commercial banks may not have much impact *vis-a-vis* activities of their field level agencies. This may not be so in the case of housing finance, because of the branches of the commercial banks, as well as the field wings of the National

Housing Bank would be competing with each other in the mobilisation of deposits from the household sector.

Shri Chattopadhyaya stated that the UTI has yet to decide the form of its involvement in housing finance. The broad thinking in the matter is that it would not be getting involved in direct retail lending, investments in real estate for profit making or in any direct construction activities. It may, however, float a subsidiary company in collaboration with the other finanacial institutions to do business in secondary housing market; it may also undertake activities such as lending to the state housing boards or to employers for construction of houses for their employees or float a unit-linked housing loan scheme. The final decision on these proposals would ultimately depend on the type of fiscal incentives that the government may be making available and their likely impact on the earnings of the UTI.

Shri Rajagopalan explained that LIC does very limited direct financing for house constructions. So far it has invested about Rs. 100 crore by way of house loans to the individual policy holders and around Rs. 30 to 40 crore to cooperative group housing societies. The government regulations, particularly those relating to the securities to be offered, do not give much hope for any large scale expansion of direct housing loans from LIC. Even in respect of LIC's indirect housing finance, *i.e.*, loans to the state housing boards, etc., they have all to be fitted into the very stringent percentage allocations, earmarked for different sectors, so in their case also no large-scale expansion of direct housing loans from LIC could be envisaged. The annual rate of growth in the investible funds with the LIC is around 12 per cent and this comes mainly through net accruals to the life fund. These increments are to be disbursed among various categories of investments as per the proportions indicated in the government guidelines. In other words, an increment in the LIC investments in the housing sector could be expected only to the order of about 12 per cent per annum. Any expansion in the level of investments over and above that figure could be only at the expense of allocations to the other sectors, which would be naturally resisted. Diversions from the investments to the private sector or free funds, are not possible as it is only through these

investments that LIC has been able to compensate its losses on subsidized lending operations. LIC cannot ignore the interests of its policy holders whose funds it is operting as the custodian.

Shri Joshi gave a brief account of the experiences of the Delhi Housing Cooperative Finance Society. For raising loans from the LIC, the Society is now required to pledge as security, not only the existing assets, but also the assets that are going to be created with the loan being negotiated. Generally the difference between the loan and the value of the assets to be pledged is considerable and this difference, in fact, is the investments that the Society has made from its internal sources. Not only mortgage charges are to be paid on this difference, but also the society is deprived of the facility of offering this excess in value as security for raising loans from other sources. The situation thus needs to be rectified. The Delhi Housing Cooperative Finance Society has so far raised Rs. 2.7 crore by way of contributions from its clients towards share capital. Through market borrowing during the previous two years, it mobilised Rs. five crore and Rs. 5.5 crore respectively. The society has recently launched a new scheme to borrow money from the group housing societies which are waiting to get land allotted to them by the DDA. It has also plans to extend that scheme to the prospective individual house builders. The Society enjoys considerable advantage in the matter of loan recovery through arbitration processes without having to go to civil court for that purpose.

Shri Rajiv suggested an early setting of the National Housing Bank as proposed in the Seventh Five Year Plan. The Bank should function fairly autonomously. The present information base in the matter on housing finance is very weak and this aspect may be given due attention.

Prof. H.U. Bijlani argued for a better appreciation on the part of RBI and LIC towards the needs of the housing finance system in the country. He cited the issuance of a RBI order four years ago, unilaterally deciding without any reference either to the HUDCO or to the Ministry of Urban Development, that all commercial banks may not provide guarantee to the state housing boards for availing the HUDCO loans. This seriously affected the loan operations of the HUDCO for

over 12 months before the order was eventually revoked. A second instance is the low priority accorded by the RBI in timing the HUDCO's open market borrowings. The third is the scant attention paid by the lead banks towards the social housing schemes in their respective jurisdictions. The fourth is the LIC's insistence on a formal mortgage of the assets against its loans. The debtors, *viz.*, HUDCO and housing boards are also government enterprises like LIC and thus a formal mortgage is clearly unwarranted. It only results in the clients incurring substantial expenditure by way of stamp duties on the mortgages. These sums could well have been utilised for housing for the weaker sections.

Mrs. Sarala Gopalan recounted similar experiences of the state housing boards. The Reserve Bank of India has arbitrarily fixed the total credit authorisation limits of the boards without any reference to the number of locations and the volume of work executed by them. In the case of the Kerala Housing Board, the credit limit is presently fixed at Rs. one crore. But even this amount of credit is not fully available as the branches of the commercial banks would always be retaining certain higher ratios. The Reserve Bank of India has also required that all HUDCO loans carrying an interest of 10.5 per cent have to be guaranteed not only by the state governments concerned but also by a branch of the commercial bank in the location. All these stipulations hike up the guarantee charges payable by the housing boards. Though the Kerala Housing Board was authorized to raise Rs. 4.5 crore during 1985-86 through market borrowings, it faced problems from the LIC and other financial institutions because all state loans carry relatively low rates of interest. At the state level also, institutions such as State Industrial Finance Corporations do not hesitate to invest in the commercial constructions such as hotels and cinema halls, but shy away from social housing schemes. This, incidentally, highlights the need for declaring housing as an industry. Further, since housing contributes considerably towards employment generation the possibilities of including housing as an activity in the rural areas for coverage for financial assistance under NABARD may also be considered.

Shri R.S. Verma argued that the credit for extending

institutional finance to the rural housing should really go to the state housing boards, for bearing all the risks in the event of non-recovery of loans. Whatever HUDCO loans are availed for the purpose they are all fully secured. In order to encourage the state boards to extend their operations in rural areas, HUDCO should also come forward to share the risks.

Ms. Banishree Maitra argued that the demands for housing finance be considered at disintegrated levels, *viz.*, the development of land and infrastructure, production of housing inputs and the actual construction of the houses. It is suggested that the financing needs in respect of the first mentioned may be looked after by the HUDCO. The commercial banks may be encouraged to meet the credit needs of the enterprises producing the various housing inputs. As regards loans to the individual house builders, there is need for considerable organisational flexibility. Here the proposed National Housing Bank has a major role to play. To make housing finance affordable, it may be necessary to offer loans for the construction of modular houses such as a roof loan, toilet loan, etc.

Shri Krishna Murthy pointed to the need for objective studies to determine the quantum of subsidies that are required to be provided to various sections of house seekers, and the benefits actually accruing to them from the fiscal concessions so that the rational policies both in regard to lending and borrowing could be decided by the proposed National Housing Bank.

Shri Raj Nandy argued that the reforms should be primarily directed to the organisational structure and work procedures of the housing agencies. It is a commonly accepted axiom in most of the developed countries that if an organisation has to face efficiently the responsibilities entrusted to it, periodic review of its management practices, rules, regulations, etc., say once in four years, is a must.

Mrs. Sarala Gopalan expressed the view that the type and the scale of problems in promoting housing finance in the country are very wide and as such there should not be any hesitation in setting up of a separate body in the form of National Housing Bank to deal with them effectively.

Dr. V.D. Lall clarified that while NABARD and IDBI are

primarily concerned with routing credits for development, the National Housing Bank is envisaged to perform twin functions, *viz.*, mobilisation of household savings and provision of housing finance to the individual builders. It is also part of its responsibilities in this context, to promote field agencies with the necessary wherewithals. However, it may not be burdened with other tasks such as mortgage insurance and promotion of secondary housing market.

Prof. H.U. Bijlani stated that housing agencies may be required to do sufficient advance planning about their investments and funds regeneration for improving their creditability in the money market. HUDCO has over the years acquired wide management expertise in this regard. It is, therefore, appropriate to designate it as the national apex body to develop the housing finance system in the country in future.

Shri Sivaramakrishna doubted whether the recent entrants in the field of housing finance can achieve success to a comparable level as that of the HDFC. The latter by dint of its track record could mobilise Rs. 30 crore in the United States money market. There has to be an Act of Parliament to scrutinise the entry into and to supervise the operations of the various agencies in the area of housing finance.

The session chairman, Shri K. Srinivasan, in his concluding remarks, observed that the consensus of the discussions is for an early establishment of a National Housing Bank and for making available funds at low rates of interest to encourage house constructions. Referring to the suggestions made in some of the discussion papers for tax concessions to encourage investments in housing, the chairman noted that there are many misconceptions. For instance, the argument that the extension of income tax concessions to the notional income from self-occupied property, "would facilitate prompt repayment of loans taken for the construction of the house" has not much force. It is altogether a different matter that such concession might help to accelerate the house constructions as has been the experience in the past in the developed countries such as the USA and UK. A more significant reform effort here is one pertaining to the deduction of interest on borrowed capital for acquisition, construction, repair or reconstruction of a house in the case, of income tax assessee's self-occupied

property. The amendment introduced in the Finance Bill, 1986 allows deductions up to Rs. 5,000 notwithstanding the income tax liability of notional income from self-occupied properties. Similarly, the argument that concessions for deducting the amounts up to Rs. 3,600, while determining the annual rental value of house property under section 23(1) of the Income Tax Act, would lessen the burden of instalments payable for acquisition of house by a middle-income group person, is of unsound logic as no link could be conceived between the two. The existing concession seems reasonable for middle-income group house owners and in any case separate allowances are available for repairs, interest on borrowed capital, etc. The third suggestion is for allowing a 100 per cent deduction on expenditures incurred by the employers in the construction of residential units for their low-paid employees. One could agree with this suggestion, but not with its extension, as favoured in one of the papers, to all the agencies "providing long-term finances for construction/purchase and also for improvements of the housing stock in the country." A financing company cannot be permitted to draw tax benefits in respect of houses that actually belong to its debtors. The debtor, besides the loan from the agency concerned, might have also invested his own savings in constructing his house. The proposal, if approved, is bound to be exploited by the private companies engaged in real estate dealings. As regards the plea for enhancing the exemption limit under section 80cc of the Income Tax Act, it appears to be purely academic, as that section has long become a dead letter. There seems to be some confusion in respect of the concessions available under the Income Tax Act in respect of the investments made in Life Insurance Premia, contribution, to the Provident Fund and the investments in the Unit Trust of India. In the case of the latter, only the dividend is eligible for income tax concession, but not the investments. Therefore, to talk about extending a non-existing concession to the bonds of the National Housing Bank, betrays an insufficient understanding of the facts. Moreover, it is highly premature to talk about the form of tax concessions needed unless the responsibilities of the National Housing Bank are clearly demarcated. The suggestion that raising of the exemp-

tion limit under section 5 (1) (XXVII) of the Wealth Tax Act to Rs. three lakh to the deposits with the housing finance institutions to help them to mobilise resources seems to be amateurish. Any non-house owner with so much money to spare would first like to invest in a house of his own, than deposit that amount with an agency for constructing houses for others.

Most of the suggestions about tax concessions pertain to house acquisitions by the middle-income group persons. Housing, unfortunately, continued to be a thing beyond the means of the poor sections. If an effective dent into their housing needs has to be made, the involvement of the municipal bodies, as in the UK, is essential. Finally, about curbing the generation of black money in the real estate operations, future reforms in that regard may be directed to: (*i*) require all properties sales to be made either to the government or routed through a government agency; (*ii*) accelerate the development of land and to make plots available to housing cooperatives, (*iii*) institute better supervision and deterrent punishments to curb the malpractices in the public housing agencies.

RECOMMENDATIONS

The major recommendations emerged from the workshop discussion are as under:

1. Though housing is well recognised as an activity with considerable employment and income multiplier effects, the investments in the sector at present are very inadequate. The position needs to be improved.
2. The strategic planning approach of the private business organisations be adopted for devising the appropriate public interventions to speed up the house construction activities.
3. The residential house constructions in the country at present are largely under informal arrangements. Hence the investments made are found to be not always maximise the socially desirable objectives. Steps

be taken to ensure that the developments in the sector are more amenable to the public policy directives.

4. The formal housing finance should be helped to play a major role in the above regard. There has to be manifold expansion in their financing activities, particularly in the matter of loans to the individual house builders.
5. Since the instinct for home ownership is an important motivator for savings, suitable infrastructure and environment should be created through appropriate fiscal and other incentives to tap the latent savings potential of the households that wants to acquire a house of their own in the near future.
6. Specialist finance institutions be encouraged to be established to tap the savings of the household sector towards housing investments and also to effect the loans to the individual house builders.
7. There is an immediate need to set up a National Housing Bank as suggested in the Seventh Five Year Plan as an apex institution at the national level. Among other functions, it will also promote the creation of a network of financial intermediaries at various levels, state, regional, and local levels. The Bank would also act as promoter, facilitator and regulator of housing finance activities.
8. The structure of the network of the housing finance institutions should allow for flexibility and innovativeness in strategies and operations.
9. There is a need to develop the support facilities such as mortgage insurance and secondary mortgage market to stimulate and expand the activities of the housing finance institutes.
10. Suitable legislative support in the areas of transfer of property, fore-closure, rent control, urban land ceiling, etc., is required to encourage housing investments.

tion limit under section 5 (1) (XXVII) of the Wealth Tax Act to Rs. three lakh to the deposits with the housing finance institutions to help them to mobilise resources seems to be amateurish. Any non-house owner with so much money to spare would first like to invest in a house of his own, than deposit that amount with an agency for constructing houses for others.

Most of the suggestions about tax concessions pertain to house acquisitions by the middle-income group persons. Housing, unfortunately, continued to be a thing beyond the means of the poor sections. If an effective dent into their housing needs has to be made, the involvement of the municipal bodies, as in the UK, is essential. Finally, about curbing the generation of black money in the real estate operations, future reforms in that regard may be directed to: (*i*) require all properties sales to be made either to the government or routed through a government agency; (*ii*) accelerate the development of land and to make plots available to housing cooperatives, (*iii*) institute better supervision and deterrent punishments to curb the malpractices in the public housing agencies.

RECOMMENDATIONS

The major recommendations emerged from the workshop discussion are as under:

1. Though housing is well recognised as an activity with considerable employment and income multiplier effects, the investments in the sector at present are very inadequate. The position needs to be improved.
2. The strategic planning approach of the private business organisations be adopted for devising the appropriate public interventions to speed up the house construction activities.
3. The residential house constructions in the country at present are largely under informal arrangements. Hence the investments made are found to be not always maximise the socially desirable objectives. Steps

be taken to ensure that the developments in the sector are more amenable to the public policy directives.

4. The formal housing finance should be helped to play a major role in the above regard. There has to be manifold expansion in their financing activities, particularly in the matter of loans to the individual house builders.
5. Since the instinct for home ownership is an important motivator for savings, suitable infrastructure and environment should be created through appropriate fiscal and other incentives to tap the latent savings potential of the households that wants to acquire a house of their own in the near future.
6. Specialist finance institutions be encouraged to be established to tap the savings of the household sector towards housing investments and also to effect the loans to the individual house builders.
7. There is an immediate need to set up a National Housing Bank as suggested in the Seventh Five Year Plan as an apex institution at the national level. Among other functions, it will also promote the creation of a network of financial intermediaries at various levels, state, regional, and local levels. The Bank would also act as promoter, facilitator and regulator of housing finance activities.
8. The structure of the network of the housing finance institutions should allow for flexibility and innovativeness in strategies and operations.
9. There is a need to develop the support facilities such as mortgage insurance and secondary mortgage market to stimulate and expand the activities of the housing finance institutes.
10. Suitable legislative support in the areas of transfer of property, fore-closure, rent control, urban land ceiling, etc., is required to encourage housing investments.

Valedictory Address

P.R. Brahmananda

The consensus at this National Workshop on Housing Finance is for an early establishment of a National Housing Bank. The proposal raises a number of macro issues that need careful consideration before operational decisions on the proposal could be taken. A major development in the Indian finance system in the recent years is the establishment of sectorwise development finance institutions. First, we had the Industrial Development Bank of India, then National Bank for Agriculture and Rural Development and EXIM Bank. Thanks to Dr. Man Mohan Singh, Deputy Chairman, Planning Commission, we hear a lot about the serious efforts being made to launch separate development finance institutions for the energy and transport sectors. The setting up of a sectoral development financial institution signifies that the nation attaches certain priority towards speedy extension of the development activities in the sector concerned. From the proposal for setting up of a National Housing Bank, it is to be inferred that the housing development is to be bestowed the same degree of importance as the development, say in the agriculture, industry, export and import trade. One has to have a clearly spelt out national order of priorities for development before one could consider the various details relating to the proposals such as National Housing Bank.

The nature and quantum of investment in housing are largely determined by the qualitative improvements that are sought to be brought about. A vital issue here is about the minimum standard of housing facilities that are being aimed at. Whether the norm is to be made applicable uniformly for all regions, rural and urban areas or are there going to be some variations? Unless this is clearly chalked out, one would not be knowing the total funds that would be required, and the way their mobilisation could be affected.

Another issue closely connected with the above, is the organisational framework. One may not have serious objections about the National Housing Bank coming up as a separate organisational entity and possibly with corresponding institutions at the state level. The problem is not so at the grassroots level. We already have wide network of commercial banks with branches operating even in remote rural areas. Then there are rural cooperatives banks promoted to undertake a variety of agricultural and rural development programmes. Certainly, some economies could be expected in entrusting the housing finances task also to the existing institutions. But the question that may be raised is whether such arrangement is going to result in a distortion in the activities already performed by those field agencies. One would not like to have any such change in the activity priorities. The alternative, of course, is to have a separate, edify of housing finance institutions even in the rural areas. Then a point to be examined is whether the additional expenditure would commensurate the additional household savings that these agencies are hoped to mobilise. Unlike in the rural areas, we do not have much of cooperative agencies in the urban areas for performing various development tasks. Therefore, the institutional form that is best suited to the urban areas need not necessarily be the same as that for the rural areas. Within the urban areas there could be difference between the institutions suitable for the metropolitan cities and those for other smaller urban areas.

The establishment of a separate institutional edify under National Housing Bank could run into serious legal issues, and one has to take precautions that it does not contrive with the any of the clauses of the exisiting statutes at the national or state level. It is also to be examined whether any of the exisiting statutes would be putting spokes in the smooth operation of National Housing Bank, and what reforms would be necessary to overcome those situations.

It is argued that the proposed National Housing Bank, is different from the IDBI, and NABARD, at least in one respect. Unlike the latter which raise funds in bulk for disbursement among the large number of their clients, the National Housing Bank would be promoting self help financ-

ing among the prospective house builders. If the National Housing Bank could achieve that, all should welcome its early establishment. The principal assumption of the protagonists of the Housing Bank seems to be that the prospect of owning a house would induce people to save at much higher levels than they otherwise be saving. Is this a correct assumption always?

We do not have sufficient objective data. The types of data that are to be gathered in this connection may be deduced broadly from the following explanation. As society develops, people have more incomes, in the process, the income distribution pattern also undergoes a change. The first manifestation is that a large percentage of the incomes would be spent on items of immediate consumption. Then at' the second stage, the proportions earmarked for purely financial investments say towards provident fund, life insurance or in short-term or high liquidity investments such as company shares would be going up. It is in the third stage that the investments with long gestation periods, such as for the future education of children are thought of. Investments in housing also comes under that last category. An individual would be induced to save and invest in housing only when he visualises that the returns accruing from doing so are in far excess of the returns expected from the alternatives open. One has to recognise that each of the options has an appeal of its own and exercises considerable pull. So the cases for an increased housing finance may better have to be argued with the help of objective data on the benefits accruing to the potential savers from various investment options open to him. The problem is, no doubt, very complex. The satisfaction that one gets in staying in his own house is not easily amenable for quantification and measurement in financial terms. One may suggest that the rent that individual could get could be taken as a proxy indicator. But rents quoted in the housing market are affected by a number of imperfections such as rent control, *pagadi*, etc., so they cannot be taken as the true representation of the values that the people attach for owning a house of their own. In addition to the satisfaction, another factor to be noted is the benefit from the current consumption that the owner gets from the housing service. Then, there are the factors

such as, capital appreciation, increased productivity flowing from the relief from mental worries and uncertainties of staying in a rented accommodation, etc. Similarly on the minus side, one has to reckon with factors such as interest payments, or increased transport costs, with if new house is located far away from the place of work, etc. The data on these various factors is, no doubt, very scarce. Serious attempts, therefore, need to be made to improve the data base, if the case for increased housing investment increased, importance for housing finance is to be effectively argued.

We may now move over to the suggestion made about the tax exemptions to be made to encourage savings and investments in housing. Here a major problem that has to be faced is again the dearth of objective data. Most of the house constructions take place with funds raised from informal sources. No systematic accounts are kept on the expenditures on construction. So it is often difficult to arrive at the genuine expenditure on housing, for which tax exemptions could be recommended say in the same manner as presently allowed for certain categories of investments in the organised sector. While on the subject, reference may also be made to the suggestion made in some quarters that funds should be allowed to flow freely into the housing sector without needing to answer any inconvenient questions about their source. The suggestion is difficult to agree especially when it is found that the funds so allowed are going to be spent on luxury housing, commercial complexes, etc. To claim tax concessions, there has to be enough social justification.

The discussion in the foregoing is largely centred around augmentation of housing finance. But a question that has to be seriously considered is whether increased finance would automatically remove the physical constraints say in the supply of inputs such as cement, steel, etc. The supply of increased housing inputs would take sometime to pick up. More than the increased demand from house construction, it is really the government policies pertaining to the sanction of augmented production facilities in the concerned industry say, cement, steel are those that ultimately decide the easy supply of those housing inputs.

A suggestion that may be seriously considered is the

utilisation of the facilities of the proposed Housing Finance Bank to promote a cooperative movement for house building and ownership. The concept of ownership of individual or independent plotted houses has to be done away with if the country has to achieve accelerated development on the housing front. Another essential pre-requisite for speedy expansion of housing constructions is the political stability. If there are uncertainties caused say by regional chauvinism, any amount of fiscal incentives may not induce people to invest their hard earned savings in housing.

In conclusion it may be reiterated that housing cannot at present stage of development of the country cannot claim the same order of priority for investible funds say as agriculture, and industry. But in the years to come the demand for housing is certainly going to pick up as the peoples' incomes grow, and their aspirations go much beyond food, clothing. In a long-term perspective, therefore, the proposal for the establishment of a National Housing Bank is very much in order and it should be given all the encouragement to take the operational shape.

PART B

Housing Finance in India: Some Issues

K.S.R.N. Sarma

There has been phenomenal growth in the demand for housing in the country in recent years, both in quantitative and qualitative terms, consequent on increase in population, expansion of industrial and commercial activities, large scale immigration into urban areas, etc. The augmentation of housing units could not keep pace and as a result, the gap has fast widened.[1] The problem is acutely felt in the large urban areas and the worst affected are the recent immigrants from the rural areas belonging to the poor income groups. It is observed that in the metropolitan cities of Bombay and Calcutta as high as 30 to 35 per cent of the population is forced to seek shelter under shanty structures in slum environments without proper access to the basic civic amenities.[2] The Seventh Plan Working Group on Housing estimated that the housing shortage

[1]The rates of growth of population of India during the decineal census periods 1951-61, 1961-71, 1971-81 were respectively 21.7, 24.6 and 24.7 per cents. But the rate of growth in the residential housing stock during the above periods were 23.0, 14.7 and 19.5 per cents. In the case of urban areas, the rate of growth of population during the decades mentioned were 26.7, 37.7 and 46.2 per cents and the growth in the urban residential housing stocks for the same periods were 27.1, 28.4 and 45.2 per cent respectively.

SOURCE: *Census of India 1971*, Part 1 (India), Part IV-B-Housing Tables; and *Census of India 1981*, Part I (India), Part VIII-Household Tables, New Delhi, Registrar General of India, Government of India.

[2]TCPO, *A Compendium on Indian Slum*, New Delhi, Town and Country Planning Organisation, Ministry of Works and Housing, Government of India, 1985, p. 16. Also according to the 1981 Census (Part VIII Household Tables), the percentage of urban households living in one room houses is 45 per cent.

in the country in the year 1985 is around 24.7 million dwelling units—18.8 million dwelling units in the rural areas and 5.9 million dwelling units in the urban areas.[3] If the housing demands are to be satisfactorally met by say 2000 A.D., the number of new units to be constructed during the next one and half decades or so is 105 million—77.9 million in the rural areas and 27.1 million in the urban areas. This is likely to involve an investment of Rs. 1,31,650 crore—Rs. 5,900 crore in the rural areas and Rs. 72,550 crore in the urban areas.[4] The task involved, indeed, is of gigantic magnitude and entails efforts on a number of fronts. Since finance is the under-scoring factor in many a development activity, the present paper attempts to discuss, some of the issues in financing housing development in the country. The matters of particular interest are the state of poisedness of the present housing finance system to face the new challenges and the areas where the reforms are to be particularly concentrated for mobilising large volume of funds and their optimal deployment for new house constructions.

We may start with a brief review of the position obtaining about the level of housing investments. According to the Draft Sixth Five Year Plan (1979-83), the total investment in new housing during the first 27 years of the planned development in the country is just around Rs. 12,386 crore—and out of which, the investment under public auspces is only Rs. 2,646 crore the rest is at the private initiative.[5] During the Sixth and Seventh Plan periods the investments in housing envisaged were Rs. 14,900 crore and Rs. 29,000 crore and out of which the investments directly under the public auspices are to be Rs. 1,400 crore and Rs. 2458.21 crore respectively.[6] Incidentally, the estimations about the overall investments in housing are reported to have

[3]*Report of the Seventh Plan Working Group on Housing*, New Delhi, Government of India, Planning Commission, 1984 (mimeo).

[4]*Ibid.* (vide Table 1 in the Appendix).

[5]*Sixth Five Year Plan (1979-83)* (Draft), New Delhi, Government of India, Planing Commission, 1979, p. 245.

[6](*i*) *Sixth Five Year Plan-1980-85*, New Delhi, Government of India, Planning Commission, 1980, p. 393. (*ii*) *Seventh Five Year Plan, 1985-90*, New Delhi, Government of India, Planning Commission, 1985, p. 296.

been based on CSO's National Income Statistics. It may be seen from the data given in that regard in Table 2 in the Appendix, the estimated capital formation in residential housing during the year 1984-85 is Rs. 8,660.56 crore and out of that, the capital formation in residential housing under public auspices is just Rs. 401.33 crore. The above figures constituted respectively 4.57 per cent, 0.21 per cent of the gross national product. A comparison of the above estimates, with the investments in housing suggested by the Seventh Plan Working Group, clearly shows the glaring disparity between the existing and the desired levels of the investment. The step-up called for is indeed very steep. It is imperative that the facilities for the provision of finances for new house constructions have to be considerably augmented. The prime moves in this regard have to necessarily come from the government in the form of appropriate promotional measures. What could be their most effective format? We may begin the discussion with a brief restrospection of the various measures taken in the above regard in recent past.

The public policies towards encouraging new housing investments, as delineated in the successive five year plans, seem to have been guided by the assumption that housing is not a productive, but an essentially consumption activity and hence cannot be accorded a high investment priority in the overall economic development strategy. The scarce investment funds have to be concentrated more on development activities in the fields of agriculture and industry. As far as housing investments are concerned, it is argued, that they may largely be left to the private initiative and the public intervention be kept to the minimum. Further, the direct public investments be confined to meet the housing needs of the poor and the economically weaker sections. The policy stance is amply clear from the statement in the Sixth Five Year Plan which reads: "In view of the severe constraints on public resources, public sector social housing schemes will be designed to benefit the maximum number of people. They will, therefore, be directed towards economically weaker sections of the community and so designed that they are within their paying

capacity. For the rest, investment policies would be framed so as to promote and encourage self-help housing".[7]

The policy premise that housing is largely a consumption activity is contested by many. It is argued that 'housing' is highly labour intensive and creates demand for units engaged in the production of a number of 'housing inputs'. On both the counts it is entailed for a classification as a production activity. There are number of studies in the literature wherein the favourable impacts of housing on 'production' and 'incomes' were clearly brought out. Despite all that, housing continued to receive very low order of priority in the matter of plan investments. Perhaps, the planners had some other compulsions and a debate is needed over that matter. Even one were to concede that for sometime to come, the present low level of public investments in housing have to continue, then still there is the question about their optimal deployment. An examination in that regard is as under.

In line with the policy guidelines as indicated in the Sixth Plan statement, public investments in the housing sector have so far been directed largely towards augmentation of mortgage housing. The only exception to that rule seems to be the investments for construction of staff quarters to the employees of the government and semi-government organisations. The other major feature of the public housing programme is that their coverage is decided mainly on the basis of the clients' incomes and greater weightage in that is given to the poor and low income groups. Other criteria for coverage are : whether client belongs to a schedule caste or tribe, what is his occupation, marital status (widow), physical handicap, if any, etc. The designs of the houses are decided largely on the basis of the clients' assumed cost repayment capacity. Some of the major public housing programmes now in vogue are: (1) Sites and Services Scheme; (2) The Economically Weaker Sections and Low Income Group Housing; (3) The Middle Income Group Housing; (4) Housing for the Plantation and Industrial Workers; (5) Rural Housing; and (6) Provision of house sites and construction assistance for the rural landless labourers. The first two mentioned cannot strictly speaking

[7] *Sixth Five Year Plan 1980-85, op. cit.*, p. 393.

be termed as house construction programmes. They are primarily concerned with the provision of infrastructural facilities at the house sites. Incidentally, these two are the Central Government sponsored schemes in the sector. The most notable feature of their design is the shift in emphasis from the earlier practice of providing fully constructed dwelling units to the provision of only infrastructural facilities at the house sites. The objective is clearly to spread the available funds on as wide coverage as possible in the hope that the clients so covered would make efforts on their own, to mobilise funds and complete the house constructions.

Though the range of public housing programmes is fairly large, the amounts earmarked for them in the successive five year plans were very small. Further, the share of public investments in the total housing investments is observed to have steadily declined over the years. During the Fifth Five Year Plan the housing investments under public auspices constituted nearly one-third of the total housing investments. But that share has come down to around one-eighth in the Sixth Five Year Plan and to one-tenth to the Seventh Five Year Plan. Public housing investments as a percentage of the total public investments has also been observed to have fallen very steeply. During the Seventh Five Year Plan, the percentage in question stood at just 1.5. Even with this modest investment target, the implementation of public housing programmes is observed to be wanting in many a respects. The sixth Plan Mid-Term Appraisal noted that under the sites and services programme, only 39 per cent of the moneys earmarked were utilised during the first three years of the Plan.[8] As regards the physical targets and achivements, the same were indicated in Table 3 in the Appendix.

The poor achievements under the public housing schemes could be traced to a number of factors, some pertaining to the very design of the programmes and others exogeneous to it. Some of the former category as generally observed are:[9]

[8]*Sixth Five Year Plan 1980-85, Mid-term Appraisal*, New Delhi, Government of India, Planning Commission, 1983. p. 105 and 106.

[9]Task Forces on Housing and Urban Development, Report IV, *Shelter for Urban Poor and Slum Improvement* New Delhi, Government of India, Planning Commission, 1983.

(*i*) Inadequate attention to the objective appraisal of projects and schematic formulation of action plans for their execution; (*ii*) Poor inter-agency coordination; (*iii*) Archaic administrative procedures particularly in respect of land acquisition resulting in considerable time and cost escalations; (*iv*) Insistence on uniform norms with no leeway for adoption to meet the variations in the field resulting in inefficient use of the funds alloted; (*v*) Non-involvement of the clients at the design and execution stages resulting in their lack of interest for proper up-keep and operation of the newly created facilities; (*vi*) Non-conferment of tenurial rights to the clients (allottees of house sites, etc.) which made them not so very enthusiastic about mobilisation of additional funds for completing the complementary house constructions; (*vii*) Location of the housing schemes at sites far off from the work centres resulting in clients having to incur huge expenditures for commutation to work, their family members loosing the supplementary sources of income, etc.; (*viii*) Inadequate administrative arrangements to enforce strict loan recovery upsetting all calculations of the financial planning. The last mentioned factor is particularly highlighted in many an official report because of the serious damage it could cause to the future of housing development proposals.

Among the exogeneous constrains, the ones generally mentioned include: (*i*) The responsibility for implementation of all public housing programmes, including the centrally sponsored ones vesting entirely with the state governments. This is so because housing is a state subject. This coupled with the Gadgil's formula for enblock provision of Central plan assistance to the states has made it rather difficult for the Centre to enforce any national priorites in housing. To cite an illustration, the guidelines of the Sites and Service scheme are very clear that its scope is limited to the provision of only on site infrastructural facilities, but in some states, the funds allotted are observed to have been utilised for construction of full dwelling units.[10] Similarly, instances are not uncommon where states have not lifted the Central allocations for housing as they could not make the required matching

[10]*Seventh Plan Working Group on Housing, op. cit.*

provisions in their budgets. (*ii*) The house construction costs steeply rising due to inflation. The R & D efforts on low cost construction technologies were slow to come about with appropriate solutions and still slower is the extension work in their regard in the field. It is common knowledge that because of high costs, the houses constructed under the public housing programmes to benefit a particular income group are often appropriated by their next high income group.[11] (*iii*) Incompatibility of the policies for financing housing and those for financing the land development. City Master Plans often required a sizable residential land to be provided for housing the poor. But the poor are generally found unable to take any advantage of that provision because of the slow pace of their availability resulting from the 'Revolving Fund' method of financing the land development. Experience of Delhi clearly indicates that the 'Revolving Fund' method of financing land development results in relatively very small percentage of developed land made available for the poor sections' housing.[12]

The discussions may now be turned to the main plank of the strategy for financing housing investments. It is generally recognised that for sometime to come, private housing would continue to be the main fulcrum of the housing development in the country, *i.e.*, most of the funds for the new house constructions have to come through the private initiative. Therefore, the public intervention has to be largely directed to encourage the same (the private initiatives). But prior to the Seventh Five Year Plan, no serious effort seems to have been made to give a practical shape to the above strategy. This is rather surprising because the plans have all along been talking about that strategy and the recent plans have incorporated considerably marked-up estimates about the inflow of private investments in housing. It may be recalled that the envisaged ratio, in respect of the public and private housing investments, in the Fifth Five Year Plan, was 1 : 3.5, and in

[11]K.S.R.N.Sarma, G. Jha and Rakesh Gupta, *Financing Urban Development in Delhi 2001 AD*, New Delhi, Indian Institute of Public Administration, 1984 (mimeo).

[12]*Ibid.*

the Sixth Five Year Plan, it was revised up to 1 : 7.5 and in the Seventh Five Year Plan to 1 : 10. It would be naive to assume that the above ratios is favour of private housing investments would effectuate solely as a sequel to the changes brought about in the investment strategy of the public housing, *i.e.*, thin spreading of the available funds on wider coverage, by concentrating only on infrastructural facilities, etc. First of all, the quantum of public investments is very small. Further, the past attempts to accelerate the coverage of the public housing schemes were severely constrained by various administrative inadequacies. The economic position of the clients targeted to be covered, is such that they neither have the economic capacity nor the enthusiam to mobilise, entirely by themselves, housing investments on large scale.

From the foregoing discussion, it is apparent that wide-ranging reforms are needed for attracting large inflow of private investments into the housing sector. One of the priority areas of reforms, as generally recognised, is the promotion of facilities for long-term housing loans to the individual house builders. A recent study[13] noted that only 22 per cent of the total housing investments in the country during 1982-83 were met by the funds extended under the formal arrangements. These include the five year plan allocations, allocations for housing in the 'Revenue Budgets' of the Central, state governments, loans extended by the general financial/ institutions such as LIC,[14] commercial banks; deposits mobilisations by the housing cooperatives; investments by the public sector and private sector specialised housing agencies, employers' loans to their staff for house building. The rest 78 per cent of the housing investments were met by the funds mobilised through informal arrangements. There again, the lion's share is accounted by the builders' personal savings.[15] The other informal sources of housing finance are

[13]Vide Table 4 in the Appendix.

[14]See Table 5 in the Appendix.

[15]Mulkh Raj, *Allotment of a House on Hire-Purchase and its Impact on Savings aud Consumption Expenditures*, New Delhi, HUDCO, June 1982; Bertrand Renand, *Housing and Financial Institutions in Developing Countries-An Overview*, The World Bank Staff Working Papers No. 658, Washington, World Bank, 1984, p. 48

the builders disposing off their other physical assets, loans from the builders' relations and friends, traditional money lenders. The informal housing finance arrangements, no doubt, have certain advantages. First is the adaptability, *i.e.*, the funds provision could be easily adjusted according to the repaying capacity of the house builder and also according to the progress made in the construction. The second advantage is in the recovery of the loans. Since the lender closely knows the borrower, he can keep a close watch over the repayment of loan instalments. If necessary, he can easily adjust the repayment schedule. These advantages notwithstanding, it is the generally held view that the present predominance of informal arrangements for financing housing developments is a major constraint in achieving an accelerated growth in that sector. The raising of the needed finances, as things stand today, could be highly dispiriting to many a prospective house builders. This is so because a house seeker either has to wait for long for his savings to get accumulated or approach the traditional money lender for loan for acquiring a house of his own. In both the events he may be put to considerable loss. In the first, it is on account of the general inflation pushing up the prices of various housing inputs. In the second, the money lender may be charging high interest rates and lending him moneys only for short periods. Because of these constraints, the investments actually materialising may be at levels far below the ones, that the house builders otherwise, would have preferred to have. After all, house is once in life time investment for many a family. They would naturally like to explore all the possible avenues open to them for funds mobilisation for construction/purchase of their house. Also they would like to acquire their house asset at fairly early stages of their earning life so that instead of paying for the house rentals, they could as well use those moneys for the repayment of the house loans. They generally exhibit enormous flexibility in their saving capabilities/habits particularly when the object to be secured is the house of their own. This motivation to save at high levels is generally dormant and it is most likely to be kindled only when the family concerned recognises the prospect of an acquisition of their own house in very near future. Thus, for an accelerated expansion of

housing investments, one of the areas where public measures should concentrate is the arrangement of the long-term housing loans to the house seekers at fairly early stages of their earning life. This task could better be undertaken only by a formal housing finance agency than an informal one. A formal housing finance agency generally evokes a higher level of confidence among the investing public than an informal one. It can make projections about funds inflow and outflow on firmer grounds, and thus its calculations about the term transformation could be relatively more sophisticated and sound. As its loan terms are well published, the borrowers could also plan their investments with greater confidence. The case for an expanded role of formal institutional arrangements for housing finance is also strong on account of other factors. These include: (*i*) The need for proper control to direct funds inflows to socially desirable housing investments. This could be served only when the dealings are with formal institutions than with the informal ones; (*ii*) Improving the coordination between the financing of house (structure) constructions with that of land infrastructural facilities' development by the public agencies. The formal housing finance agencies are also better placed than the informal ones to provide the needed guidance to the clients in the matters of new construction technologies, the norms to be compiled with under the building bye-laws, etc.

Having argued the case for encouraging the establishment of formal housing finance institutions, we may now turn to the efforts made so far in that direction. The arrangements now in vogue in the formal sector for provision of long-term finances to the individual house builders comprise mainly: (*i*) Housing loans extended by the scheduled commercial banks (to the families belonging the scheduled castes and tribes, widows and other economically weaker sections); (*ii*) House loans by the LIC to its policy holders and their cooperatives; (*iii*) House building advances by the government and public sector companies to their employees; (*iv*) House loans by the Housing Development Finance Corporation (HDFC). The Housing and Urban Development Corporation (HUDCO), premier public sector housing finance agency, however, does not provide house loans to the individual house builders. Financial

assistance provided by it is largely indirect. It is routed through the state housing agencies, city development authorities, group housing cooperatives. It may be seen from the data given in Table 4, that the financial assistance provided through HUDCO during 1982-83 was just Rs. 131.78 crore and it constituted a mere 3.15 per cent of the total housing investments. The commercial banks "House Loan Scheme" was introduced in the year 1979. As per the RBI guidelines, the commercial banks are required to earmark four per cent of their total investment port folio towards housing loans. But the experience so far has been that most of the funds so earmarked are left unlifted. This is attributed mainly to the very stringent conditions required to be fulfilled by the clients in the matters like providing the collatorals, etc. In a recent review,[16] it was noted that out of the cumulative sum of Rs. 800 crore earmarked, so far only Rs. 400 crore could be disbursed as direct loans to the individual builders. For the last two years or so, the banks are being permitted to fulfil their quota obligations by subscribing to the bonds of the HUDCO and other state housing agencies. Liberalisation of the eligibility conditions for availing the commercial banks' house loan facility is an issue for detailed discussion. Regarding the LIC house loans, a major hurdle is stated to be the prefixed quotas in respect of the investments that could be made in various sectors and subsectors. As the LIC's primary concern with the promotion of the interests of its policy makers, it could not possibly be expected to earmark a larger percentage of investments for housing, as these are low interest earning proportions. The experience under the present formal arrangements for individual house loans have also not been entirely encouraging. The amounts available for loan disbursements remained at very low level and loans are made available to only those who have reasonably assured incomes. A large number of low and intermittent income earning groups such as those from the urban informal sector vocations, are more or less left out of coverage. Secondly, no major effort is made to exploit to advantage, the house

[16]Please see Statement by the RBI representative on page 26 of the (present) workshop proceedings, and also the Articles by Krishna Kumar and I. Chawdhri.

aspirants' instincts to save at high levels for owning houses of their own.

The Seventh Plan, taking the cue from the past experience, has rightly proposed the establishment of a specialised housing finance institution, *viz.*, the National Housing Bank (NHB) on the same pattern as the Industrial Development Bank of India (IDBI) and the National Bank for Agriculture and Rural Development (NABARD). The envisaged objectives of the NHB are: (*i*) it would help the augmentation of housing finances by mobilising additional savings from the prospective individual house builders, and (*ii*) provide individual house loans to the low income (occupational) groups that have so far been denied access to that facility. NHB is expected to play a supplemental role to the activities presently performed by the other public agencies such as HUDCO, state housing boards. The NHB is also expected to assist the government in devising various fiscal incentives in respect of the savings mobilisation and loan schemes to reach as wide as possible spectrum of house aspirants. It would work for the establishment of a large number of field agencies with the requisite initiatives and innovative administrative procedures to handle their operations. The field agencies may be in the form of mutual savings and house loan associations or housing finance and building cooperatives. The NHB would formulate and administer a national charter wherein, the operational jurisdictions of the field agencies are clearly spelt out. At the all India level, the NHB would operate as an apex body, laying down the broad policies and generally monitor the working of the state and regional level set-ups. Besides, it is also expected to: (*i*) conduct periodical reviews and advise the government about the working of the fiscal and other incentives for the housing sector development; (*ii*) encourage the R & D efforts for the promotion of low cost housing; (*iii*) work for the elimination of the irritant legislative provisions such as under the Rent Control Legislation, Urban Land Ceiling and Regulation Legislation, etc ; (*iv*) promote an effective nexus between the general capital market and the housing finance market through the establishment of a secondary housing market, housing mortgage, insurance facility, etc.

The framework envisaged for the NHB operations is indeed, laudable. It, however, raises certain issues. First is, about the NHB's role in helping the mobilisation of investment funds on large scale through additional savings from the client groups. Here the expectation seems to be largely based on the successful operation of the savings linked-house-loan schemes in some of the industrialised countries. Two outstanding examples of such schemes are the 'Bausparkassen' of the West Germany and the 'Epargne Loqement' of the France. Recently, the HDFC has also launched a house-loan linked savings scheme on the lines of the West German model. The successful extension of these schemes, however, depends on how the housing agency concerned is able to manage the required margins of its deposit inflows over its loan outflows. The margins required to be maintained vary not only according to the average periods of the deposits and the loans, but also according to their quantums. Smaller the quantum of the deposits, larger would be the percentage of the amounts that has to be kept aside as the cushion money. In other words, when the clients covered comprise largely the low income groups, the scope for speedy revolving of the funds is limited and hence the extension of the operations. Even in the cases, where the clients belong to relatively high income groups, the housing finance agencies in India may still be facing problems as the investment climate that contributed for the success of 'Bausparkassen' is not exactly obtaining in the country at present. In the West German case, the factors that contributed for the success include: (*i*) a variety of fiscal incentives to both investors as well as house builders; (*ii*) a large proportion of the clients belonging to the young age groups. They could wait for longer periods to purchase/construct a house of their choice. That, in turn, seems to have been facilitated by the easy availability of rental housing during their waiting period; (*iii*) availability of supplementary loans in addition to those from the housing finance agencies; and (*iv*) inflation remaining within the tolerance limits. The last mentioned seems to have very significant role. First it protected the investors against any fall in the real value of their deposits. Second, it protected the

house aspirants from steep cost escalation during the waiting period for their house.

The second issue is about the fiscal and other incentives to attract saving deposits towards housing finance institutions. A recent estimate has put the total volume of deposits with the non-formal and non-banking financial agencies such as private chit funds at roughly around Rs. 45,000 crore, *i.e.*, almost the same as the deposits with all the nationalised commercial banks put together.[17] Several factors are observed to have contributed for the phenomenal growth of the deposits with the non-banking financial institutions in the recent years. Foremost among them is the attractive rates of return offered. Not all funds flowing into these non-banking financial institutions are utilised on optimal investments from the societal point of view. There have been suggestions by some, for long, that there should be strict governmental regulation over the operations of these non-formal deposit mobilising agencies. The housing finance agencies could fill-in the bill of diverting the household savings away from the above agencies to a development oriented activity, *viz.*, housing. This could be done when housing finance agencies are enabled to offer interests on deposits with them at rates comparable to those offered by say the public limited companies on short-term deposits with. But one difficulty with the suggestion is that it would make the housing loans very costly and thus defeat its very objective. An alternative is for the government to come forward and help the housing finance agencies with suitable fiscal incentives on their operations. But such step could be recommended only when two things could guaranteed. First, that it results in additional household savings and the second that it does not adversely affect the share of the deposit flows to the priority sector development activities. A large percentage of the general investors may not be interested in investing in houses either because they already possess a house of their own or do not feel the need for it. In a survey conducted in the United States in 1982, it is observed that people under the age group of 35, accounted for less than seven per cent of the saving balances. But that is the

[17]A.N. Prabhu, *Economic Times*, Bangalore, January 29, 1986.

age group which usually accounts for a very large percentage of the house loan seekers. On the other hand, nearly half of the savings are held by those over the age of 65 years. Another 25 per cent of the savings are held by those in the age group of 55-65 years. The last mentioned two age groups may either already have a house of their own or not interested in building one. Similar is the observed age group composition of the savers in Great Britain. People over the age of 55 years accounted for nearly 74 per cent of the savings and just nine per cent of the borrowings.[18] This brings out clearly one point. That the fiscal incentives on deposits with housing finance agencies may not necessarily lead to substantial increases in household savings. Further, it cannot also be guaranteed that an increased deposits inflow with the housing finance agencies is not at the cost of deposit inflows (diversions) to the investments in other development sectors. Household sector is the only surplus sector providing free investment funds in the economy. Therefore, extreme caution has to be exercised in choosing the fiscal and other incentives to encourage deposits with the housing finance agencies.

The third issue is again related to the fiscal and other incentives. This time it is about making the house investments more attractive for the house builders. The requirement here is to make the houses less costly and within the affordable limit of an average family. Many official committees in the past have emphasized the need for promoting the R & D effort in low cost housing. Therefore, financial allocation for research and extension in above connection may be stepped up. Second suggestion for consideration is the subsidised provision of the housing inputs for the residential house constructions. Fiscal and other incentives may be given to the production units concerned to enlarge their operations on the condition that the economies of scale are passed on to the house builders. But the operationalisation of the suggestion is administratively a very difficult proposition. This is so because, the housing inputs such as steel, cement, bricks, etc., have alternative uses and there is no way of guaranteeing

[18]Mark Boleat, *National Housing Finance Systems*, London, Groom Helm, 1985, p. 2.

that the inputs earmarked and provided for building residential houses are not utilised for the non-residential constructions. Even in the case of residential constructions, it is difficult to justify the provision of subsidised housing inputs for the construction of houses for the rich. Another suggestion is for the provision of tax concessions direct to the individual house builders. But direct tax concessions could be provided to only those who are coverable under income tax or wealth tax assessment. They belong to the relatively rich income groups and already enjoy a number of tax concessions on house building. Therefore, the case for further tax concessions to them cannot be easily justified.

Now we come to the issue of helping the field level housing finance agencies in conducting their operations. From the foregoing explanations it is evident that the housing finance agencies have to do very tight rope walking. On one hand, they have to offer highly favourable terms to the investors to attract large deposit inflows. But at the same time they have to offer house loans at reasonably low interests to encourage even the marginal cases to come forward and take up house constructions. The task is, indeed, very difficult. But one thing that NHB could do while recommending tax and other concessions is to ensure that market is not flooded with the 'fly by night' operators. That could cause an irreparable damage to the cause of housing finance development in the country in the long-run. Whatever measures are taken they, should be such that they help the housing finance agencies to conduct their operations on financially self-sustaining basis. One of the suggestions here is that the government should come forward to bear the difference in the interest rates, *i.e.*, between the one required to be paid to the depositors and the other at which house loans are to be offered. Another suggestion is to allow the housing finance agencies to diversify their operations. The short term lendings could fetch them substantial margins. A recent World Bank Study (World Bank Staff Working Paper No. 578 1983) noted that trend with the development financial institutions in a number of countries is for they are increasing diversification of their activities and taking up short-term profitable transactions. But such moves have to be weighed against the advantages that

accrue from keeping the specialised character of the housing finance network. Another suggestion that may be given some thought is that the NHB at the all India level and its affiliates at the state/regional level may concentrate on the policy aspects, general supervision, etc., leaving the actual operations at the field level, *i.e.*, savings mobilisation and loan disbursement to the already existing agencies such as the branches of the commercial banks, agents of the UTI and LIC and to the housing cooperatives.

The fifth issue is about field agencies innovating and improving their administrative practices. The area of particular interest here is the management of loans recovery. The agencies should have a high degree of flexibility, to the same extent as usually noticed in the case of informal sector financing arrangements. Required legal and other powers for that purpose should be incorporated in the charters to be sanctioned to the field level agencies. NHB should have proper monitoring mechanism so that the above provisions are properly utilised. Since housing is a state subject, NHB would be required to keep a close liaison not only with HUDCO at the national level but also with various state housing boards, etc., for effecting close supervision and guidance over the operations of the field level housing finance agencies. Similarly, on the capital market front, the NHB has to keep a close liaison with general financial institutions and commercial banks for successful floating of the housing bonds, etc. As already stated, the need for promoting a secondary housing market, and establishment of the house mortgage insurance agencies is well recognised. A problem of immediate concern is about the *modus operandi* that NHB has to adopt in its dealings with its field agencies. This largely depends on the organisational entity of the latter whether they are cooperatives or registered companies. This is a matter for detailed discussion.

In conclusion, it may be briefly recapitulated that the position with regard to the housing finance system in the country, at present, is far from satisfactory. Not only the inflow of funds for housing are very small, but the arrangements in their regard are predominantly informal. The housing loan facility seems to be generally out of the reach for many a section of the house aspirants. The suggestions made

in the Seventh Plan for the establishment of a specialised housing finance agency—NHB and for the promotion of a wide network of housing finance agencies at the field level are highly in order. But there are still many organisational matters that need detailed discussions. Augmenting the housing finance system to meet the fast growing housing demand could not be accomplished in isolation from the efforts for achieving an orderly urban development. This makes it imperative that the actions on various related fronts such as land development, improvement of construction technologies, general expansion of capital market, besides promotion of housing finance intermediaries, should all be undertaken in a concerted manner.

Appendix

Table 1 PERSPECTIVE FOR HOUSING

(A) The Programme (million)

Urban

	EWS Housing sites and services	*pucca houses*	*LIG*	*Private housing*	*Total*
1985-90	1.00	1.00	2.00	3.50	7.50
1990-95	0.50	1.00	3.50	4.00	9.00
1995-2000	—	0.50	5.00	5.00	10.50
Total	1.50	2.50	10.50	12.50	27.00

Rural

	Rural house site-cum-house construction	*EWS housing*	*Private housing*	*Total*
1985-90	6.00	10.00	3.00	19.00
1990-95	10.00	14.00	4.00	28.00
1995-2000	7.00	19.00	5.00	31.00
Total	23.00	43.00	12.00	78.00

(B) Cost (Rs. crore)

Urban

	Sites and services	*Pucca houses*	*LIG houses*	*Private housing*	*Total*
1985-90	300	1200	4000	17500	23000
1990-95	150	1200	7000	20000	28350
1995-2000	—	600	10000	25000	35600
Total	450	3000	21000	62500	86950

Rural

	Rural house-site cum-house construction	*EWS housing*	*Private housing*	*Total*
1985-90	1800	6000	3000	10800
1990-95	3000	8400	4000	15400
1995-2000	2100	11400	5000	18500
Total	6900	25800	12000	44700

(C) Total Outlay (Rs. crore)

	Public sector	*Private sector*	*Total*	*Percentage share of public sector*
1985-90	7800	26000	33800	23.1
1990-95	11500	32250	43750	26.3
1995-2000	14350	39750	54100	26.5
Total	33650	98000	131650	25.6

SOURCE: *Seventh Plan Working Group on Housing*, New Delhi, Government of India, Planning Commission, 1984, (mimeo).

TABLE 1 GROSS NATIONAL PRODUCT AND CAPITAL FORMATION IN HOUSING

(*Rs. in crore*)

	1970-71	*1978-79*	*1979-80*	*1980-81*	*1981-82*	*1982-83*	*1983-84*	*1984-85*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Gross National Product (at product cost)	36,452.00	87,005.00	90,511.00	1,13,846.00	1,30,763.00	1,45,200.00	1,71,713.00	1,89,417.00
Gross domestic Savings	6,783.62	24,138.63	34,696.69	29,375.20	33,457.73	37,359.07	43,082.47	49,090.89
Gross household Savings	4,872.43	17,747.12	17,377.84	22,119.15	23,489.14	25,471.66	33,086.64	38,715.69
Net household Savings	3,538.90	14,367.03	13,468.38	17,412.30	17,940.95	20,321.84	26,015.57	30,799.44
Net household Savings in the form of physical assets	2,167.82	7,708.58	7,387.92	9,020.58	8,560.05	7,882.24	11,767.97	12,401.48

Gross capital formation unadjusted for errors and omissions	7,344 00	22,984.00	26,143.00	31,457.00	36,229.00	40,476.00	47,255.00	53,844.00
Gross capital formation in Construction	3,959.27	10,316.23	10,955.02	13,015.16	15,341.17	18,217.67	20,700.64	24,061.00
Gross capital formation in residential buildings	825.79	2,848.96	3,452.65	4,087.22	5,093.34	6,175.75	7,488.65	8,660.56
3.2.1.1 Gross capital formation in residential buildings (Private)	792.15	2,724.38	3,281.67	3,916.86	4,892.45	5,961.99	7,128.34	8,259.23
3.2.1.2. Gross capital formation in residental buildings (public)	33.64	124.58	170.98	170.36	200.89	213.76	360.31	401.33

(Contd.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Gross capital formation in non-residential buildings	1,549.92	2,622.98	1,959.98	2,666.15	2,724.05	3,299.32	3,409.86	4,424.20
9.2.1 Gross capital formation in non-residential buildings (private)	1,290.03	1,763.76	935.08	1,351.13	807.37	1,208.39	1,084.29	1,569.28

TABLE 3 SOCIAL HOUSING PROGRAMMES—ACHIEVEMENTS DURING THE SIXTH FIVE YEAR PLAN

Sl. No.	*Social housing programme*	*Houses/Tenaments (in Lakhs)*	
		Target	*Achievement*
(1)	(2)	(3)	(4)
1.	EWS Housing	19.19	11.00 (57)
2.	LIG Housing	1.64	0.65 (40)
3.	MIG Housing	0.65	0.33 (50)
4.	HIG Housing	0.18	NA
5.	Subsidized housing (Plantation workers, Industrial workers)	0.23	0.12 (50)
6.	Village housing projects	36.70	19.95 (54)
7.	Rural House Sites-cum-House Construction Assistance	61.00	54.30 (90)
8.	Rental Housing	0.70	0.33 (47)

SOURCE : *Sixth Five Year Plan 1980-85*, p. 394; *Seventh Five Year Plan 1985-90*, p. 293, New Delhi, Planning Commission.

NOTE : Figures in parentheses indicate percentages.

TABLE 4 ANNUAL INVESTMENT FLOWS IN TO THE HOUSING SECTOR

(Rs. in crore)

Year ending March 31	*1970-71*	*1975-76*	*1980-81*	*1981-82*	*1982-83*
(1)	(2)	(3)	(4)	(5)	(6)
1. Formal Housing Finance	535.77 (55.35)	267.15 (18.10)	625.50 (19.99)	764.03 (20.66)	944.01 (22.59)
(*a*) Budgetary allocation[1]	464.48 (47.98)	101.66 (6.89)	216.03 (6.90)	288.27 (7.79)	332.88 (7.97)
(*i*) Centre	103.94 (10.74)	33.31 (2.26)	82.61 (2.64)	104.71 (2.83)	129.19 (3.09)
(*ii*) State and Union Territories	360.54 (87.25)	68.35 (4.63)	133.42 (4.26)	183.56 (4.96)	203.00 (4.87)
(*b*) General financial institutions/organisations	39.18 (4.05)	77.03 (5.22)	178.03 (5.69)	210.31 (5.69)	288.93 (6.91)
(*i*) LIC	39.18 (4.05)	74.01 (5.01)	93.49 (2.99)	129.85 (3.51)	145.66 (3.49)
(*ii*) GIC	—	0.13[5] (0.01)	7.18 (0.23)	9.44 (0.26)	10.08 (0.24)
(*iii*) Commercial Banks[2]	—	—	11.19 (0.36)	7.82 (0.21)	6.82 (0.16)
(*iv*) Provident funds	—	2.89[6] (0.20)	66.17 (2.11)	63.20 (1.71)	126.37 (3.02)

(c) Specialised housing finance institutions	32.10	88.46	231.44	265.45	322.20
	(3.32)	(5.99)	(7.40)	(7.18)	(7.71)
(*i*) HUDCO	0.50	35.83	89.97	105.24	131.78
	(0.50)	(2.43)	(2.88)	(2.85)	(3.15)
(*ii*) Apex cooperative societies[3]	0.23	6.49	48.14	54.49	61.68
	(0.02)	(0.44)	(1.54)	(1.47)	(1.48)
(*iii*) Primary cooperative societies[4]	31.38	46.14	72.34	79.15	86.00
	(3.24)	(3.13)	(2.31)	(2.14)	(2.07)
	—	—	20.99	26.47	42.14
			(0.67)	(0.72)	(1.01)
2. Total Informal Housing Finance (3-1)	432.23	1208.85	2503.50	2934.41	3235.22
	(44.65)	(81.90)	(80.01)	(79.34)	(77.41)
TOTAL	968.00	1476.00	3129.00	3698.44	4179.23
	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)

[1]Includes capital and development expenditure on houses.

[2]Relates to calender years 1980, 1981 and 1982.

[3]Estimated for 1980-81, 1981-82 and 1982-83 on the basis of actual growth between 1977-78 and 1978-79, the last two years for which data have been published. In 1977-78 the amount was Rs. 33.19 crore and in 1978-79 the amount was Rs. 37.57 crore.

[4]Estimated for 1980-81, 1981-82 and 1982-83 on the basis of actual growth between 1970-71 and 1975-76. The published amount for 1970-71 is Rs. 31.38 crore and the amount for 1975-76 is Rs. 46.14 crore.

[5]Data from Finance for Housing Schemes, *Report of the Working Group on the Role of the Banking System*, RBI, p. 65.

[6]Gross domestic capital formation in housing and related sectors, including commercial, real estate and business sectors.

NOTES :

1. Figures in parentheses are per cent of total.
2. Data for state housing boards have not been presented separately as they take loans from state governments, LIC, GIC and HUDCO.

SOURCE : Vinay D. Lall, "Institutional Development and Fiscal Policy Financing Housing Programmes", in K.S.R.N. Sarma (ed.), *Financing Urban Development in India*, New Delhi, Indian Institute of Public Administration, 1985, p. 274-75.

TABLE 5 AGENCYWISE DISTRIBUTION OF LIC LOANS FOR HOUSING DEVELOPMENT

(*Rs. in crore*)

Sl. No.	*Agency/Item*	*Loan up to March 31 of the year*		
		1978	*1979*	*1980*
1.	Loans to the state governments	284.13	307.56	349.03
2.	Loans to apex cooperative housing finance societies, etc.	370.17	418.62	491.37
3.	Loans under own your home scheme	59.53	64.78	71.15
4.	Loans to LIC employees and their cooperatives	31.94	35.56	40.00
5.	LIC staff quarters	18.80	19.60	0.22
6.	Loans to the public limited companies, cooperatives for their employees	5.50	5.90	6.32
7.	Loan on mortgage of houses	44.45	47.52	50.92
	TOTAL	814.56	899.54	1,028.55

SOURCE : *Statistical Abstract of India*, New Delhi, Central Statistical Organisation, 1985.

Housing Sector: The System, Its Structure and Some Strategies

*T. Krishna Kumar**

First we shape our structures, and afterwards they shape us.
—WINSTON CHURCHILL.

Our planning efforts during the last three and half decades neglected the housing sector. This neglect is partly due to a particularly narrow view taken by the planners of the housing sector as the one that provides a merit, good to the poor at a price they cannot afford. It is for this reason that the plan efforts were aimed at only providing subsidised housing and house-sites to the poor and the weaker sections, such as slum dwellers, plantation workers, low-income group households, etc. The main thrust of this paper is to provide an alternative view of the housing sector.

If one takes a comprehensive view of the entire housing sector along with its interactions with other sectors of the economy, it becomes evident that there is an urgent need to develop a new national housing policy and to replace the old policies by new ones. Housing sector offers a challenging opportunity, an opportunity missed all these years for some unknown reasons. It is a promising opportunity to increase employment, to reduce inequalities in income and wealth, to reduce regional imbalances in development, to increase household savings, etc. In short, housing sector can meet our developmental objectives better and more effectively

*Professor, Centre for Human Settlements and Environmental Studies, Indian Institute of Management, Bangalore.

than several other sectors. An investment in the housing sector will have far reaching multiplier effects on the entire economy.

Even a casual examination of the housing sector can show that there is an acute shortage of housing and that this shortage is increasing year after year. The housing needs are increasing year after year but neither the housing demand nor the housing supply are keeping pace with the housing needs. Housing demand is low because income and wealth levels are low among a large section of our people. Housing supply is low because this sector is highly unorganised, decentralised, and the rate of return on investment is not attractive enough. Both the producer and the consumer of housing, these are often times the same individual, need finances which are not readily available. With increasing industrialisation, and associated urbanisation and urban migration, the housing shortage can soon reach astronomical proportions unless the housing sector is subjected to a basic structural transformation.

STRATEGIC PLANNING APPROACH

The basic approach being followed in this paper is the strategic planning approach.[1] This approach consists of examining the entire housing sector with its demand subsystem, production subsystem, input systems including the human resource subsystem, the public system that regulates it and the interactions of each of these with others within the system and with the rest of the economy. All the subsystems are operated by individuals and each individual behaves in such a way as to maximise the sum total of his net private benefits at the expense of imposing social costs. If he is altruistic he may try to minimise the social costs associated with any level of his net private benefits. Any policy that proposes to change the behaviour of individuals would evoke responses from them in such a way that they would continue to maximise their net

[1]For a good introduction to strategic of corporate planning one may refer to: (*a*) Russell Ackoff, *The Concept of Corporate Planning*, New York, Wily-inter Science, 1970; and (*b*) H. Igoe Ansoff, *Strategic Management*, London, MacMillon 1980.

private benefits under the new policy environment. If the policies do not exploit the underlying behavioural phenomena and do not take into account intended, as well as, unintended consequences of those policies they are likely to fail miserably or at best yield only less than the desired results.

Public Policy vs. Business Policy

If one examines all the government policies affecting housing sector which are in operation today it becomes apparent that there are too many policies aimed at tackling too many problems, but all of them put together impose too much of private and social costs, and create too little of private and social benefits. This is a typical example of a poorly managed activity. When the private business and industry sector confronts a similar situation it looks for business management principles and procedures to improve the situation. The management tools, such as strategic planning and management by objectives, are such tools. These tools can also be applied to develop strategies to improve the housing sector, and through it the housing conditions in the country. Of course, the tools must be adapted to suit the public policy situation as opposed to a private business policy situation. In principle, there need be no significant difference between the two, but in practice there is. Such a difference between public policy and business policy stems mainly from the differences between the two in terms of: (*i*) type of goods and services produced (public or quasi-public goods by the public sector and private goods by the business and industry); (*ii*) type of financing (taxation in the public sector and pricing in the private sector); (*iii*) presence or absence of competitive environment; and (*iv*) type of organisation.

Public policies, in general, are formulated and implemented using administrative principles such as incrementalism, risk-avoidance, budget balancing, target-achievement irrespective of how the targets are measured and whether they represent the basic objectives or not. As a result one observes some system pathologies such as lack of innovation, duplication of effort, spreading resources too thinly on too many activities (in such a way that none of the activities achieve

much), resource constraints, too much emphasis on targets and very little on basic objectives and results.

Business polices differ from the above type radically in all the dimensions. In order that business policy type of solutions can be fruitfully applied in the field of public policy the necessary culture and environment must be generated first among the top government administrators. In other words, professional management culture must be generated and maintained among the top administrators in the government.

A Systems Approach to the Housing Sector

Strategic planning approach calls for a systems approach to the housing sector. Fig. 1 depicts schematically the housing sector, its subsystems, and other systems with which the housing sector has significant interaction.

The demand for housing is affected by the demographic and economic trends such as natural growth of population, family formation, household size, in-migration, out-migration, industrialization, employment, income, credit, etc. Supply of housing is affected by physical deterioration of the existing housing stock, repairs and maintenance activity and addition to housing stock through new residential construction. New residential construction activity is a part of constructions activity and it is affected by the non-residential construction activity. Both residential and non-residential construction activities are affected by the quantity and quality of the inputs that go into them—managerial input, land, building materials, skilled and unkilled labour, etc.

It must be noted that all these inputs, managerial input, land, building materials such as cement, steel, timber, skilled and unskilled labour have alternative uses. Hence the residential construction activity is affected by the entire regional economic system through the backward linkages of its inputs.

All these subsystems are linked to each other as depicted in Fig. 1. Furthermore each one of these subsystems is subject to dynamic forces that bring about changes in their structures. Any meaningful policy framework for the entire housing sector must recognise these interactions and the dynamic forces. Strategies, policies, and plans are meant to be executed in a time domain and they need to be altered or

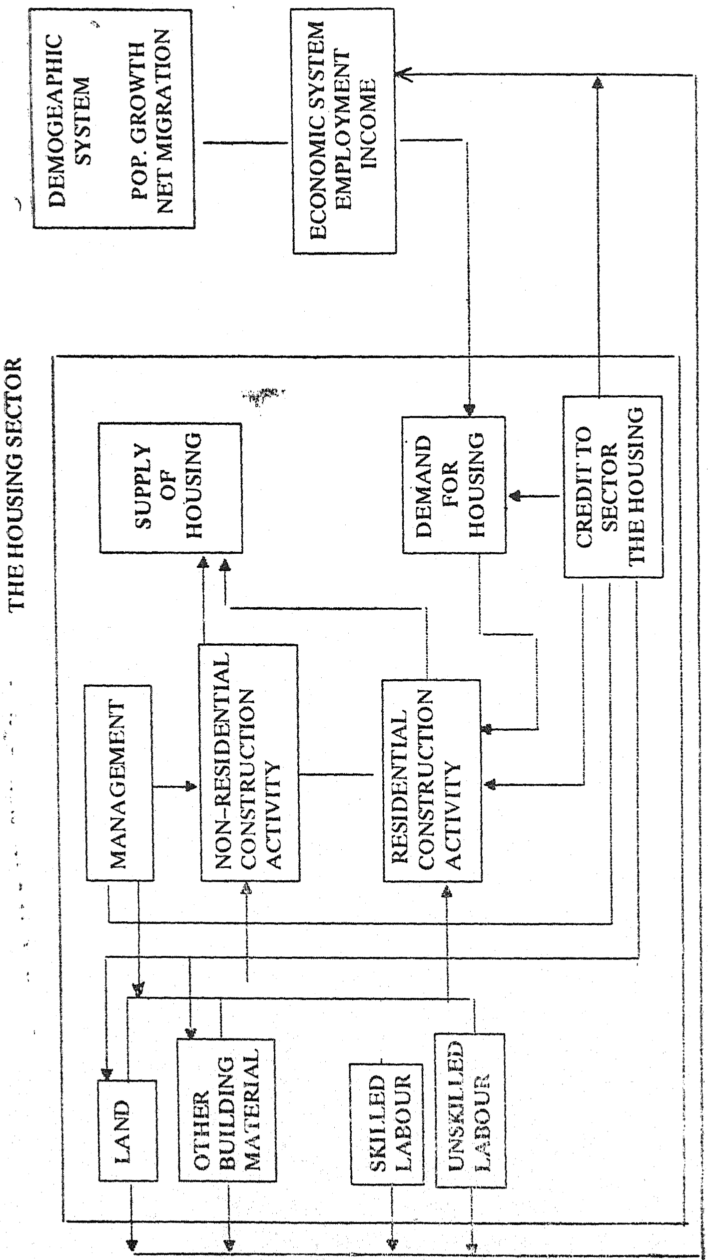

FIG 1 : THE HOUSING SECTOR

replaced by new ones when the system characteristics change. Thus long-term strategies, medium-term policies, and short-term or annual plans must be based on a thorough understanding of the entire residential housing sector as an open system with its own internal structure and interactions with other systems. Since housing is location specific one must add a regional dimension also to the system depicted in Fig. 1.

FACTORS THAT AFFECT DEMAND FOR HOUSING

By housing we mean either a residential dwelling unit itself or the services provided by it. In the latter case we refer to it as housing services. Housing is not homogeneous and it comes in different assortments and in different qualities. One important characteristic of housing is that, in most cases, it is fixed in a certain location and hence it cannot be moved. This property of its immobility gives importance to the neighbourhood in which it is located. It is one of the aspects that create market imperfections in trading of this commodity.

For home-owners investment in housing is an investment in an immovable physical asset. With this investment are associated: (*i*) a future strearam of housing services for the period of its ownership; and (*ii*) capital gains or losses at the time of selling it. Thus the decision whether to own or rent a house and the decision whether to invest in a house or some other asset depends on expected capital gains and losses and the flow of housing services during the expected period of ownership. These decisions are of course, relevant only for those who have access to funds for investment. Most of the less fortunate ones today have no choice except to rent, the choice being limited to which unit to rent given their income, family size, social status, place of work, and other factors. For those who rent housing services it is like taking the unit on lease with regular monthly payment of rent. They build no equity by holding the asset and making regular payments.

A housing unit is an asset which can be regarded as a package of several attributes needed by the members of the

household. It is a place from where the members of the household go to schools, colleges, hospitals, shops, recreational areas, places of worship, and places of work. Thus, accessibility from place of work and other public places is another very important attribute of a housing unit.

The demand for these attributes depends on people's attitudes, the household composition, occupation of the head of the household, household income, and other characteristics; and these characteristics vary from household to household. Usually the household trades-off one attribute for another, such as sacrificing amount of available space for being close to the place of work, schools and shops. Sometimes the trade-off or substitution can be between private provision and public provision of services. For example, if protection against crime is adequately provided by the local government the household's demand for the safety attribute in a house is reduced. If subsidised public transportation is provided by an urban local government, the households can move farther from their places of work and consume more space.

The demand for housing can be affected by policies of the government which bring about changes in employment and income of the households. The demand for certain attributes, such as location or accessibility, can also be affected by government policies such as development of self-contained neighbourhoods, provision of public transportation, etc.

It must be emphasised at the outset that what the housing sector needs is simultaneous shifts in both the demand and supply. Only then can there be "more housing at an affordable price", which should be the objective of any national housing policy. Thus, when we talk about strategies to increase demand for housing it must be kept in mind that such strategies can, in fact, turn out to be counter-productive if they are not accompanied by other strategies to increase housing supply.

The trend of increased industrialisation and urbanisation is likely to create an enormous increase in-migration to large cities and towns. The demand for urban housing with increase much faster than the pace with which we can increase supply of housing. Pressure on urban land and scarcity of building materials will increase the cost of residential

accommodation. The household incomes are not expected to grow as fast as the cost of land and construction. Thus, one would expect a severe degree of housing deprivation if the present trends continue.

One way of arresting such a gloomy trend is to create an institutional infrastructure that can increase the household expenditure on housing. Mobilisation of household savings for housing investment through mortgage finance in one such institutional infrastructure. This is described in the following pages.

THE ROLE OF BANKING AND NON-BANKING FINANCIAL INSTITUTIONS ON HOUSEHOLD SAVINGS, LOANS AND HOUSING INVESTMENT

The following is a statistical profile obtained from CSO's National Accounts Statistics for the year 1980-81. About 80 per cent of our national income is distributed to individuals as wages and salaries, and income from self-employment. Personal disposable income forms about 87.75 per cent of the national income. Households' net savings form about 15.75 per cent of the personal disposable income. Nearly one-half of the net savings is in the form of physical assets. Nearly one-fifth of households' savings is held by the public as currency outside the banking sector. This statistical profile suggests that there is a large potential for household savings, households prefer to put most of it into housing, and a very large amount of their savings is outside the banking system.

It has been observed that there are a large number of non-banking financial institutions, formal and informal, organised and unorganised, legal and illegal. These institutions are performing roles complementary to the roles currently performed by the banking system. The banks are required to maintain 37 per cent of total demand and time deposits in liquid financial assets, mainly in government and other approved-securities. The credit system of banks is also governed by the priority sectors scheme. Between the statutory liquidity requirement and the priority sector schemes the depositors and low and middle-income households do not receive the credit they need for housing investment. The

banks are also regulated regarding the maximum interest they can pay on deposits. The rate of interest paid by banks is much less than the 'market-rate' of interest. So people look for alternatives, for savings as well as for loans. The non-banking financial intermediaries (NBFIs) have been the answer.

According to some estimates there could be as many as 30,000 such non-banking financial companies. Their deposits are estimated to be Rs. 45,000 crore, a little more than the deposits held by all the nationalised banks put together. They employ about three lakh people with a wage bill of nearly Rs. 200 crore per year.[2] Although no accuracy can be claimed for these estimates, they at least roughly indicate the dimension of the problem. It is quite apparent that the legislation banning the deposit mobilisation by NBFI's will join the company of several other legislations by becoming a useless legislation even on the very first day of its coming into being.

These developments are telling us a simple story. People's behaviour is supreme, and if the formal financial institutions do not meet their needs they would encourage informal NBFIs to flourish. If controls are imposed on such informal institutions, such controls eventually loose their meaning as it would become impossible for the government to police the controls in the face of large-scale violations. It seems to be a very indirect and inefficient way to serve the people if the government does not meet on the one hand their financial needs for housing investment and then tries on the other hand to compete with NBFIs to generate plan resources to meet the plan outlays on housing! Instead the government should create the necessary credit facilities for private housing.

Our economy was given several shots in the arm, some of which turned out to be quite vital for its growth and development. Nationalisation of banks in July 1969 is one such. The nationalised banks penetrated into the rural economy on a very large scale and their contribution to the agriculture, small scale industries, the rural economy, and the weaker sections is a structural transformation. But, by not extend-

[2]These estimates were given by A.N. Prabhu in *Economic Times*, Bangalore edition, January 29, 1986.

ing credit to the housing sector these banks have been missing a great opportunity.

Home-Mortgage Finance Through the Banking System

It is well-known that both housing demand and housing supply can be increased if credit for housing investment is made available through banks and other financial intermediaries. The prevailing banking system is responsible partly for curbing people's incentives to save for possible investment in housing. It is also responsible for diverting investible funds into highly unorganised and informal sector of non-banking financial intermediation. It is suggested here that the development of home savings and loan intermediation within the formal banking system, together with a National Home Mortgage Corporation (NHMC) and Mortgage Insurance system by LIC and GIC would set the stage for attracting investible funds to the housing sector. In order to obtain the best possible results from the above strategy it is also necessary to abolish or amend rent-control legislation and to promote home builders and developers with loans from banks and other financial institutions. This can be done by declaring housing as an industry under the Industries Act.

Since housing services are offered through a high cost durable good—a dwelling unit—the demand for housing depends on the permanent income of the household, or its command over resources over a long period of time. The permanent income of a person depends on his human capital, physical capital, and the market mechanisms through which such wealth can be amortised into a regular flow of income. Nearly 40 per cent of our people are below the poverty line and they have neither the human capital nor the physical capital. The labour market, the asset market, and the financial market are not well-organised to generate amortised flow of income to persons who are willing to work, and who are willing to acquire an asset on hire-purchase. The solution seems to lie in organising the asset market, the financial market, and the labour market. Housing sector provides an excellent opportunity to do the same. This is elaborated in following paragraphs.

A Detailed Scheme for Mortgage Finance

It is very important to realise that local level savings and loan activity can mobilise only small savings and give only short-term loans. Issuing of house-building loans calls for a large number of loans for large sums over a long period. Hence, the local level activity must depend on a central financial intermediary to provide long-term finance. For receiving such long-term finance there must be a collateral or a security. The best security one can think of for house-building loan is the built house only. This is equivalent to creating a system of house-mortgage finance.

Before getting carried away with the notion of mortgage finance one must examine it very carefully, particularly in the field of housing. The first problem with mortgage financing is the preparation of a mortgage instrument. This requires that the asset which is being mortgaged must exist. House-mortgage finance can come into the picture only after the construction of the house. Houses can be constructed only if some intermediary between the mortgage financing institution and the prospective home-owner stakes his or its own financial resources with an expectation that the built house would be sold under a mortgage finance.

There are two alternatives open here. Either the state housing boards can perform this intermediary role or the state can encourage private builders and building contractors to do so. Since private builders would be guided by the profit motive they might minimise costs by sacrificing on the quality. It is necessary to make sure that such builders adopt certain building codes. The national-level mortgage company must make sure that such a builder sticks to the building codes. This must, of course, be done through the local level savings and loan institution which would also prepare the final mortgage instrument in association with a regional inspector-cum-representative of the national-level mortgage corporation. The other alternative is that the state housing boards can take care of this function. Given the present status of affairs it is desirable that only for slum clearance and LIG housing schemes, the state housing boards perform this function. Once the new strategy is adopted, the private builders would be encouraged to enter the scene for building

houses for the middle and upper-income households. The government can promulgate regulations on land-use to make sure that the scarce land and building materials are not wasted or misused. The government should not engage in the construction of MIG and HIG housing units. In order that the mortgage instrument or paper, prepared by the local savings and loan institution, be marketable for generating refinance, the refinancing institution, the NHMC, must assess the risks associated with default in the repayment of the loan. Such defaults could arise partly due to the death or disability of the borrower. Such risks can be covered through a compulsory death or disability insurance policy of the borrower, with the first claim on the benefits assigned to the NHMC to the extent of the outstanding mortgage credit at the time of death or disability. LIC can cooperate with NHMC and the local level savings and loan institution on this matter. The defaults can also occur due to fire, loot and larceny, affecting the mortgaged property. For this as well as any other default risks, the NHMC can insist on a compulsory general mortgage insurance policy to be issued by the General Insurance Corporation.

In spite of these measures to cover the risks there is still a cost associated with the risk. GIC would like to acquire the mortgaged properties in order to settle the insurance claims of NHMC. Under the prevailing laws in the country, and the effectiveness or lack of it in their implementation, it is extremely difficult to get vacant possession of residential properties. Without vacant possession, GIC cannot acquire and sell the property. This situation has the obvious effect of increasing the premium on the mortgage insurance policies of GIC. Higher insurance premium increases the cost of loan to the borrower.

It is suggested that the existing laws be suitably amended to enable the GIC to foreclose the mortgaged properties in cases of default. Such amended legislation must be easy to implement and hence suitable home mortgage tribunals must be created to deal with such cases.

The default risk also depends on the ability of the borrower to make regular monthly payments. Under the prevailing conditions only about 15 per cent of employment is in the

organised sector. Most others are either self-employed or employed in the unorganised sector, including agriculture. Thus regular monthly income is guaranteed only in a few instances. In most other instances the local level savings and loan association has no mechanism to ensure for itself regular and timely payment of loan instalments. For this reason it is suggested that direct home mortgage finance be limited in the first instance to only those heads of households who have a regular income and who are covered by provident fund and pension schemes. It is also desirable to introduce new and innovative schemes with variable and flexible repayment schedules for the benefit of those who have irregular incomes. In the case of persons employed in priority sectors, such as agricultural labourers, cultivators, craftsmen, petty traders, etc., the state housing boards may be asked to guarantee the payments.

Some Implications of the Proposed Scheme

There are several important consequences of the above strategy. First, the low-income households can afford to own a house of reasonable value which is within their paying capacity. Second, house building industry gets a boost as the mortgage finance will be made available to finished houses. The builders and contractors would increase their activity. Third, since construction industry is quite labour-intensive and employs local labour the employment and income in every region would improve. Fourth, the existence of such home mortgage loans would enable households to channel their savings and would create a culture of thrift among the households. In the absence of suitable social security schemes, investment in housing with bank credit functions as a social security scheme.

Although over time, the monthly contributions of the owners can generate the funds needed for mortgage finance, in the initial years such funds must be raised through the regular capital market. Under the proposed scheme and with the possibility of an automatic creation of markets for buying and selling mortgaged properties the low-income people can become owners of assets. As such they will be entitled to make capital gains in the urban housing market and improve

their incomes and wealth. It may be noted that both in rural and urban regions the propensity to save increases as income increases. Further the propensity to invest in housing also increases with an increase in total savings and investments.[3] Thus, the proposed strategy has far-reaching multiplier effect on the housing industry and the entire economy. This scheme is expected to be self financing in the long-run. It will conveniently fragment the housing market into two sections, subsidised and non-subsidised housing markets. Through such segmentation the government can perform more effectively in the subsidised housing market.

Affordability and the Role of Housing Finance

The value of a house property that a household can purchase depends on its income and the terms of housing finance. To illustrate the point some figures are provided in Table 1. It is assumed that a household has a regular monthly income of Rs. 2,000. Depending on their size, composition, and the life-style households can devote varying portions of their regular monthly income for housing. For illustrative purposes we assume that the household can spend either 30 or 40 per cent of its income towards monthly payment on home-mortgage loan. This proportion can be termed shelter cost to income ratio. The actual monthly payment depends on how much down-payment the household makes. It is assumed that the amount of down-payment can be either 20 per cent or 30 per cent of the total value. The level of monthly payment also depends on the term of the mortgage loan. It is assumed that the term of the loan can be for either 20 or 25 years. Finally, the level of monthly payment also depends on the interest rate. It is assumed that the interest rate can take on three values 8,10 and 12.

Table 1 gives the value of house in rupees thousand that a household with monthly income of Rs. 2,000 can afford under alternate assumptions regarding: (*i*) shelter cost to income

[3] *Household Income and its Disposition*, National Council of Applied Economic Research, 1980 cited in *Housing Statistics, 1982-83*, Table 1.7, New Delhi, National Building Organization, p. 4.

TABLE 1 AFFORDABLE VALUE OF PROPERTY IN RUPEES THOUSANDS WITH A HOUSEHOLD MONTHLY INCOME OF RS. 2,000

Scheme I : 20% Down, 80% Mortgage Loan

	Per cent Income Devoted for Housing			
	30%		*40%*	
Years of Repayment→	*20*	*25*	*20*	*25*
Interest Rate ↓				
(1)	(2)	(3)	(4)	(5)
8	89.60	97.10	119.50	128.75
10	77.75	82.50	103.75	110.00
12	68.12	71.25	90.88	95.00

Scheme II : 30% Down, 70% Mortgage Loan

8	102.43	111.10	136.57	147.14
10	88.86	94.29	118.87	125.71
12	77.86	81.43	103.86	108.57

ratio, (*ii*) per cent down-payment, (*iii*) length of term of the loan, and (*iv*) interest rate.

It may be noted that the parameters chosen are quite reasonable. From this table it becomes clear that a house costing Rs. 1.5 lakh is quite outside the paying capacity of a household whose income is Rs. 2,000 per month. A lot of insight can be obtained regarding affordability of housing by varying the monthly income and other parameters. For example, if the actual market rate of interest for a 20 year loan is 12 per cent and a household with a monthly income of Rs. 2,000 can spend only 30 per cent of its income for housing and can afford only 20 per cent down payment then the affordable value of the house is Rs. 68,120. By giving an interest subsidy of two per cent, the affordable value can be raised to Rs. 77,750. By further increasing the term of the loan to 25 years the affordable value can be further raised to Rs. 82,500. The only way the household can afford a house of

value Rs. 1,10,000 in spite of such subsidies is to increase the percentage share of housing expenditure from 30 per cent to 40 per cent.

Given the income distribution of additional households in a region and the terms of housing finance one can use this type of calculations to estimate the number of new houses in different ranges of value and also the associated requirement of funds for mortgage loans.

It may be noted that the schemes currently made available to the public by Housing Development Finance Corporation (HDFC) charge much higher interest rates, demand greater down-payment, and ask for shorter term for repayment.[4] Thus, HDFC is only serving households with high incomes. There is thus a need to mobilise more and more resources through innovative home-savings schemes exploiting the existing nationalised banking system. It is noteworthy that most of the deposits to the banks come from the household sector and this sector does not get back its due share of loans in return. It is no doubt true that the house mortgage finance scheme helps only those households who can mobilise sufficient resources through their own savings. But the scheme once introduced has the capacity of sustaining itself and it can even stimulate further growth in household savings. The scheme thus enables people to help themselves and in the long run it reduces government subsidies for housing.

RESIDENITAL CONSTRUCTION ACTIVITY

Production of housing asset has one unique feature not shared by most other production activities. It must be produced at a specific location, and once it is produced at a given location, it cannot be moved to another location. Production of housing is thus a highly personalised and decentralised activity. The phenomenon of economies of scale normally associated with most of the production activities is

[4]For details on HDFC schemes one may see two pamphlets issued by HDFC, *Information on Housing Loans for Individuals* and *Home*

of little or no relevance for the housing industry.[5] Housing asset is created employing labour and using materials, such as, cement, iron and steel, sand and bricks, wood, tiles, etc. Since construction must take place at a fixed location, the housing materials have to be transported to the final location. Since transportation costs are high it is preferable to procure locally as much of the housing material as possible, particularly those materials that have a low value to weight ratio.

Some of the materials used in house construction, such as, iron and steel, plumbing material, electrical goods are manufactured and they come from distant places. Materials such as bricks are also manufactured but usually not very far from the site, while some other materials, such as, sand, stone, etc., come from the nearby places. The skilled, semi-skilled, and unskilled workers also come from the local area. Materials such as cement, iron and steel, etc., have other alternate uses, while items, such as, plumbing fixtures, electrical goods, etc., are manufactured exclusively for use in residential and non-residential construction. House construction, thus, involves a very complex mix of goods and services, some produced locally and some at far away places, some of which have alternative uses while others do not.[6]

House building activity generates local employment and local income. Since house construction is highly decentralised production activity it has the advantage of creating dispersal of employments. In a country such as ours with regional disparities in income and employment it is quite desirable that our private and public investments are channelled to housing. Construction activity can take place at any time except during monsoon season. Hence, it is possible, through careful

[5]Production of prefabricated housing material is ofen suggested as one method through which economies of scale and cost reduction can be achieved in the housing sector. The economic and commercial viability of this suggestion is not yet thoroughly established. We may seriously consider both mobile home concept and prefabrication concept for reducing the cost of housing. For some other suggestions regarding economising on housing costs one may refer to *Economy in Housing Projects*, New Delhi, HUDCO, 1981.

[6]For further insights on this aspect one may refer to a UNIDO pulication on the Building Materials Industry, UNIDO, Monographs on *Industrial Development*, No. 3, New York, 1969.

planning, to provide alternate employments to agricultural labourers during the off-season. Care must be taken to see, however, that higher wages in construction do not divert agricultural labour away from farming during the peak agricultural season.

There is reluctance among some sections of our bureaucrats, politicians, and academicians to either term housing as an industry or to make construction activity more and more commercialised and industrialised. The reasons for such an apprehension advanced are mainly two. First, these people feel that housing is a merit good which the poor cannot afford and the government has to subsidise it. Hence, the government must be concerned only with low-income and subsidised housing in the public sector. It should not concern itself with commercial and industrial aspects of housing which only benefit the relatively better-off sections of our society. Second, these people associate profit motive and exploitation with commercialisation and industrialisation.

While there is no dispute regarding the merit good nature of housing and the possibility of profit motive and exploitation there is not sufficient justification to argue that the government should not concern itself with industrialisation and commercialisation aspects of the housing sector. Since the resources used for construction are the same, whether the construction refers to housing for the poor or housing for the better-off sections any improvement in one segment of the housing market is expected to improve the other segment also. One must also examine the two alternatives and their impact on the entire housing situation. One alternative in which government concerns itself only with subsidised housing and does nothing about the other segment of the housing sector and the second alternative in which it takes a systems approach and attempts to improve both segments of the housing market. In examining these alternatives the government should take due note of the regular market forces that operate and it should be guided by social benefits and social costs that give appropriate weightages to both equity and efficiency aspects of providing housing services.

The modern view of an industry is much different from the view of the classical economists. The modern concept

bestows on both industry and government the same objective of public purpose with both economic efficiency and equity in distribution. Commercialisation and industrialisation are quite consistent with the objectives of public policy. In fact, it might turn out that the objectives of public policy are better served with responsible commercialisation and industrialisation than with public provision of goods and services.

Commercialisation and Industrialisation

Housing sector is predominantly an unorganised sector.[7] Most of the residential houses in the rural areas are built by the owners themselves with hired labour and locally available material. Nearly 95 per cent of the rural households own the houses in which they live. Even in most of the towns and cities, except in large metropolitan cities such as Bombay and Calcutta, residential houses are built mostly by the owners according to their own specifications either under their own supervision or under the supervision of a hired contractor. Except in a few instances neither the owner nor the contractor is a qualified civil engineer. Thus, management of house construction is predominantly in the hands of non-professionals. It is estimated that out of about 35.5 lakh of construction workers in 1981, 24 lakh of workers (67.5 per cent) were unorganised.

At present, most of the residential housing activity is undertaken by the owners themselves. They hire financial services from friends, relatives, banks, PF organisation, LIC, etc. They hire professional services of engineers, masons, carpenters, etc. And they even hire the unskilled labourers themselves or have the mason hire them. The owner himself supervises the construction, thereby reducing GNP, to use the famous Samuelsonian argument. The experience, the owner gets, possibly just once in his life-time, is neither updated nor passed on to other prospective owners. Other persons do not enter as middlemen or builders mainly because the construction activity requires a huge amount of financial

[7]Another UNIDO publication on construction Industry presents some useful conceptual and factual information on the nature and structure of housing industry in developed and developing countries. UNIDO, Monographs on *Indnstrial Development* No. 2, New York, 1969.

resources and their use in construction is risky on the one-hand and yields very low returns on the other. Banks and other financial institutions must give loans to such middlemen and such loans can be insured by LIC and GIC against default. If insured loans are given to builder-developers, and if the housing sector gets a boost through mortgage finance described above then automatically the housing sector gets organised.

It is quite evident that certain materials used in house construction can be produced on a large scale if there are economies of scale that far exceed the cost of transporting them to the ultimate construction site. In fact, the cost of distribution also may decline with scale of production. Electrical goods, plumbing goods, hardware and paints are examples which benefit from, as they currently do, rapid industrialisation and modernisation. A lot more can be done in reducing the costs of production and distribution in these industries. Vocational training, promotion of worker cooperatives, etc., are certain measures which would improve the productivity of construction workers. Licensing of skilled and semi-skilled workers and introducing quality control and standardisation of housing materials are some other useful ways of improving the quality of construction. Productivity can also be improved through innovative changes in construction technology. Management of operations such as purchasing, inventory control, planning and programming of activities through network techniques, financial management, etc., can also improve productivity of the construction sector.

At present, the housing sector is highly unorganised. The government also has not given house building activity an industry status to avail some of its industrial subsidy schemes. Under such an environment, it is difficult to develop new low-cost and appropriate technologies and to utilise such technologies. It is hoped that governmeut schemes aimed at recognising housing as an industry and improving its organisation, commercialisation and industrialisation would go a long-way to bring commercially viable low-cost appropriate technologies.

Land-use and Housing

Land is one of the basic components of building construction activity. Even in an extension area of a growing city such as Bangalore, cost of land constitutes about one-fourth of the total cost of construction of a house. Urbanization creates greater and greater demand for land in and around developed urbanised areas. In a monocentric city with no physical barriers and well laid-out streets one would expect the land values to be the highest in and around the central business district (CBD) or the city centre and show a gradual decline as one moves farther away from the city centre.

The cost of construction per square metre of a multistoreyed building is expected to increase with an increase in the number of floors. The cost of land per dwelling unit is expected to decrease with an increase in the number of floors. Given the cost of land and construction there is an optimum number of floors at which the cost per dwelling unit is minimised. This optimum number of floors is greater if the land value is more. One must, therefore, expect that a monocentric city should have a sky-line which is analogous to a three dimensional diagram depicting the land value pattern. In fact, this does not happen in practice because the decision on how many floors to build is a private decision which depends on the prevailing land values, finances available, and demand for built-up space. Although the land values and demand for space increase with urbanisation the necessary adjustment does not take place due to the durability of the housing stock, the cost of conversion, and other market imperfections.

Land can be put to various uses—residential, commercial, industrial, recreational, public-purpose, etc. The returns to land-use can vary between these alternatives. If pure market forces were to prevail urban land can be bid at very high price for commercial and industrial uses driving the low income workers to far-off outskirts. One way of avoiding such adverse impacts is to make it impossible for land to have alternative uses. As the physical characteristics of land make it substitutable between alternative uses one has to invent ways of

changing the characteristics artificially so that different pieces of land cannot be substituted one for the other. This is what is achieved through land-use zoning, widely and rigorously followed in USA. But in order that this instrument serve the purpose for which it is meant one must make sure of two things. First, the land-use zoning must be based on a detailed regional planning exercise which takes into account the economic linkages between households, business, industry, and the government. Second, the zoning laws must be enforced strictly and zoning violations should not be permitted at all.

Any stimulus given to the housing sector, such as the housing finance scheme detailed in preceding pages, must also be accompanied by appropriate measures to increase the supply of inputs that go into residential construction activity. Land constitutes one of the major inputs in the housing industry. Since land is in fixed supply the only means through which housing supply can be increased are: (*i*) converting land from some other use to house construction; and (*ii*) having an intensive use of land whereby more living area is built on the same land by increasing the number of floors and increasing the density of population.

Land-use zoning concept described earlier can be used to achieve these two steps. The zoning can be made hierachical, whereby land under residential and recreational zones cannot be used for any other use; land under commercial zone can be used only for residential and commercial uses and land under industrial zone can be used for all uses. Such a hierarchical system takes into account the natural historical development of a human settlement. It allows the possibility of converting some commercial area to industrial use, and some residential area to commercial use as the town or city grows Newly urbanised areas can be used mostly for residential use. The residential zones near the centre of the city must maintain high floor space index so that the productivity or yield of land between residential and commercial use would be equated.

It has been noted that in cities with population of one million persons and above a little over 25 per cent of developed

land is vacant[8]. Such a large percentage is possibly due to land development activity of the urben development authorities and time lags in the allotment of plots and construction of houses. However, even in a rapidly growing city like Bangalore one can find a number of vacant plots in already well developed areas. This is because of speculative activity in the land market. This must be curbed by the concerned local governments by levying high vacant land taxes. Such high vacant land taxes would hurt low-income households who are waiting to accumulate the necessary finances to build *pucca* houses. But under the strategy described in preceding pages mortgage loan finances would become available and hence there would be no excuse for keeping residential land vacant. In addition to imposing a high vacant land tax, the local government can acquire such land on lease, for a period of five years beyond the first two years of freehold. The local authority can, in turn, lease such space to mobilehome industries that would set up temporary mobile homes. The local government can provide water, electricity, and sewerage facilities to those sites. Once the lease is over the government should take the responsibility to move the mobile homes to new vacant sites. Before implementing this scheme one must be sure that the people can be moved to newer places and that they do not squat on valuable urban land.

As mentioned earlier when the land values increase due to urbanisation, the optimal land-use calls for high-rise buildings. The process of intensive use of land is painfully slow if it is left completely to the private initiative. To make this process faster, the government may periodically prepare area redevelopment plans for various subareas of a city. Under these plans the govenment may provide special incentives for old tenants to move out to new areas and to sell their properties for achieving more intensive use of land. The government can then fix a higher floor space index (FSI) for all new constructions after preparing a redevelopment plan.

Land values and land-use can also be affected by certain other policies of the local government. For instance, through the development of neighbourhood shopping centres the

[8]D.B. Gupta, *Urban Housing in India*, World Bank Working Papers No. 730, Washington, World Bank, 1985, p. 137.

government can increase the land values in the intermediary and peripheral zones of a city and also reduce the land values near.the already well-developed market centres. Similarly land-use pattern and land-values can also be affected by the local goverment by providing transportation infrastructure.

Use of Cement and Steel in Residential Construction

Housing supply can be improved by reducing the cost of inputs other than land. Cement and iron and steel are two such other major inputs. The cost of these items can be reduced either by reducing their prices or by reducing their use through appropriate changes in the housing designs. Modern architecture and modern designs of construction which make excessive use of these scarce materials should not be permitted to flurish in our country. Such architecture and construction designs must be replaced by social architecture and appropriate construction technology.[9] This strategy is not new, but it is distressing to note that it is being ignored. Our country's efforts stop with either an experimentation or a pilot demonstration of newly developed low-cost appropriate technologies. It is necessary that an organisation such as NBO treats some of these new technologies as 'new products' and employs the standard business and industry type of aggressive marketing strategies to make sure that they are successfully accepted by the builders and home-owners. The concept of social marketing, through which the attitudes of building contractors and home-owners can be changed, becomes highly relevant.

The prices of the above commodities can be brought down, at least in the long run, by price-decontrol and by increasing the production capacity through liberal licensing policies. The recent trends in the cement and steel industries in the country are quite encouraging from this point of view. The cement production has increased considerably after decontrol introduced about four years ago.

The recently announced increase in steel prices, long overdue, would also lead to an increase in steel production.

[9]For some suggestions on low-cost housing using new construction designs one may refer to *Economy in Housing Project*, *op. cit.*

The Union Minister for Steel and Mines, announced recently that they are considering the establishment of small and medium-scale regional steel plants. This is encouraging. Housing is a widely decentralised activity and transportation of large quantities of steel and cement over long distances would hurt the construction industry. The government must, therefore, go at full steam to implement the scheme of encouraging mini-steel plants and mini-cement plants to come up.

It may be noted that cement and iron and steel used in residential construction have alternative uses. If the price, one is willing to pay for these materials for alternative uses, is very high then there would be an adverse impact on housing investment. The real problem in this area arises not from free market forces between alternative uses but from the lack of it. Government's restrictions on production, prices, and distribution (through quotas) are responsible for market imperfections. In the long run, it is better that free market forces are allowed to operate. If these materials are bid at higher prices for alternative uses there will be, in the long run, an attempt to replace these material at least partly by other low-cost substitutable materials.

Better Organisation of the Construction Activity

The next major category of inputs that go into residential construction is skilled and unskilled labour. The labour markets for skilled and unskilled construction labour are highly unorganised. The construction industry can benefit enormously if formal vocational training is provided not only in imparting the necessary technical and vocational skills but also by providing organisational and managerial skills. It is estimated that about 67.5 per cent of construction workers are unorganised.

The construction industry can benefit from the creation and promotion of a middle level organisation—a building organisation—an organisation that lies between the skilled and unskilled labour and the houseowner.

Black Money and Housing Activity

Housing is considered to be a good physical asset both to generate and to conceal black money. This is possible for

several reasons. First, house property has become one of the major assets purchased using black money. This has been so because valuation of house property is quite arbitrary and it can vary between a wide margin. This makes it possible to sink black money in a personally possessed and cherished asset. Second, the valuation of house property can be arbitrary because it is a heterogeneous commodity whose quality and attributes show a wide variation. Third, as it uses unorganised professional services and unskilled labour there are no organised records and it can accommodate a wide margin for the cost of those services. Fourth, house building is a long and complex activity that cannot be easily broken down into uniform and homogeneous segments for effecting cost control.

Any attempt to organise the housing sector can hopefully make it less attractive to sink black money, and consequently reduce the circulation of black money. Introduction of mortgage finance scheme can also be expected to reduce the amount of non-banking case transactions and hence, reduce transactions involving black money.

Cost of a Dwelling Unit and Affordability

Table 1 shows the values of residential houses that a household with a monthly income of Rs. 2,000 can afford, under varying assumptions regarding the financing scheme. In the preceding paragraphs certain policy strategies for reducing the cost of construction have been mentioned. One must make sure that these two match. The total cost of a dwelling unit depends on the price of land, land-use (FSI) and cost of construction. It is quite useful to prepare a table of cost of a dwelling unit (including any normal profit margin for the builder) under alternative assumption regarding price of land, land-use, and cost of construction. Table 2 provides such information. It may be noted that at present the market value of land in Bangalore in the extension areas is between Rs. 1,200 to Rs. 1,500 per square metre and the cost of construction is between Rs. 1,500 to Rs. 1,600 per square metre.

By comparing the figures in Tables 1 and 2 we notice that under the prevailing cost of structure in Bangalore even with housing finance being made available, a household with a monthly income of Rs. 2,000 cannot afford to own even a

TABLE 2 COST OF RESIDENTIAL DWELLING INCLUDING COST OF LAND UNDER ALTERNATE ASSUMPTIONS

(*Rs. in thousand*)

Cost of Const p.sq.m.→ / *Cost of Land* ↓	*Single Storey*				*Four Storeys*			
	800	*1200*	*1600*	*2000*	*800*	*1200*	*1600*	*2000*
100	36.60	52.60	68.60	84.60	33.15	49.15	65.15	81.15
200	41.20	57.20	73.20	89.20	34.30	50.30	66.30	82.30
500	55.00	71.00	87.00	103.00	37.75	58.75	69.75	85.75
1,000	78.00	94.00	110.00	126.00	43.50	59.50	75.50	91.50
1,500	101.00	117.00	133.00	149.00	49.25	65.25	81.25	97.25

Structure 40 sq. mts. Land 46 sq. mts.

Structure 40 sq. mts. Land 46 sq. mts. Shared by 4 dwelling units.

moderately small house (with hall, one bed room and a kitchen). There is, hence, a need to either to bring down the cost of construction through a change in technology such as prefabrication or have intensive land-use by increasing the FSI.

In order to see where construction cost can be reduced one must examine distribution of construction cost. Table 3 provides such a distribution at the prices and rates prevailing in 1980-81. This also shows a rate of return to housing investment for a owner-occupied house.

CONCLUDING REMARKS

In order to examine whether housing industry offers an opportunity for increased flow of investible funds or not, a very comprehensive view of the entire housing sector is attempted. It is emphasised that our planning efforts in the past have not achieved the desired results mainly because the various housing policies were designed and developed in a piece-meal fashion and with a narrow focus. It is argued that greater attention be paid to people's wants instead of people's needs. Government policies could take a structural shift to enable people to get what they want instead of giving people what they need, their needs being decided by the state.

What is needed, in short, is to make the housing sector more organised so that it can attract more investible funds through the regular market forces. It is suggested that policies must be developed to make housing market a better organised market for the physical asset, the mortgage paper must be developed as a financial instrument through financial intermediation, price and commodity controls must be removed, rent-control must be abolished, construction skills must be developed, etc.

There is need to develop the necessary infrastructure by the government: preparing the land-use plans and revising them, preparing urban redevelopment plans, developing planned neighbourhoods, creating the financial intermediation, collecting and disseminating information on management of house construction, enforcing land-use regulations and building codes, etc.

TABLE 3 COST AND EARNINGS IN RESIDENTIAL HOUSING: A CASE (OWNER-OCCUPIED HOUSE)

Location : Bangalore, BDA Lay-out; Period : 1980-81
Area : Land 520 sq. mts; Structure : 260 sq. mts.

Particulars	*Percentage and Total Cost*
Mason	12.51
Bricks, Stone, Sand	14.49
Cement	10.25
Iron & Steel	9.86
Other related masonry work	4.30
Wood and glass (material)	17.39
Carpentry	4.86
Plumbing	10.56
Electrical	6.24
Hardware and paints	4.08
Miscellaneous	5.43
	100.00
Cost (Rs. 1168.84/sq.mt.)	3,04,039
Land (at Rs. 175/sq.mt.)	Rs. 90,080
Registration	Rs. 14,341
Interest on capital	Rs. 15,484
Gross rent (imputed)	Rs. 33,600
Depreciation	Rs. 6,080
Net rent	Rs. 27,519
Rate of return	6.49%

Since residential construction activity is labour intensive, highly decentralised, and has strong forward and backward-linkages with other sectors of the economy, any boost given to the housing sector will have far-reaching multiplier effects on the entire economy. In particular off-season construction employment can be created for agricultural labour. Construction employment and additional income can be generated

throughout the length and breadth of the country. By making mortgage finance available for poorer sections of the society their wealth and income distribution can be improved over time. If financialintermediation in the housing sector does not take the proper shape very soon the nation will be loosing yet another opportunity, a golden opportunity, to bring about a structural transformation of its society.

Mobilisation of Funds and Lending for House Construction in Maharashtra

*P.S.A. Sundaram**

Housing sector has an important role to play in the development process as investment in housing stimulates rest of the economy in sectors like building materials, construction, transport and urban infrastructure. It activises the dormant savings as home-ownership offers one of the greatest incentives to save and accumulate. Finally, as appreciated by United Nations and in all developing countries, it helps to achieve a major socio-economic objective of improvement in the quality of human life by providing a habitable dwelling with basic facilities and access to health-care, family welfare, eduction and employment opportunities.

Despite this realisation, successive programmes in the national and state plans have not touched even a fraction of the total housing requirements, and despite professions to that effect, the urban poor have not demonstrably benefited from various housing schemes. The total production of houses in the public sector is a small percentage of the total housing stock created every year and the public investment has made only a marginal contribution to housing for the poor. Bulk of the housing of all income groups, including the poor, is supplied by private initiative in variety of ways, ranging from organised activities of private developers and cooperatives to unauthorised housing efforts in the form of private colonies or squattings on public lands and pavements.

The Sub-Group appointed by the Working Group of the Planning Commission on Housing for the seventh Five Year

*Administrator, Maharashtra Housing and Area Development Authority, Bombay

Plan has estimated the housing shortage at 24.7 million units, including 5.9 million in urban areas. Apart from the existing backlog in housing, increase in population during 1985-90 would generate an additional requirement of housing units to the extent of 16.2 million, of which 3.8 million will be in urban areas. This means that even if aim is only to prevent an increase in the magnitude of backlog in housing, it would be necessary to build, during Seventh Plan period, over 16 million houses, and this itself indicates the gigantic magnitude of the housing problem. The Seventh Plan document recognises that there is a need for radical reorientation of all policies relating to housing. All sectors of the economy, *viz.*, government, public enterprises, private/corporate sector, cooperative sector and the household sector, will have to participate in a coordinated manner in housing activities. It recognises that the major responsibility for house constructions should be left to the private sector in particular to the household sector. Building houses according to the differing preferences and requirements of different households and economy in house construction can become possible only if the prospective owners themself participate or involve in house constructions. It recognises that large-scale house constructions by the households has been inhibited in the past by inadequate provision of institutional finance for the housing sector. Among other things, two major prerequisites for a big jump in house construction in urban areas are mobilisation of resources for the housing sector through the establishment of appropriate set of institutions and the development of suitable house sites by the public sector on large-scale for allotment to the public. In this context, the plan projections of expenditure on the housing sector in the public and private sector are revealing. It is envisaged that during the Seventh Plan period, the total public sector investment would be of the order of Rs. 2,458 crore, while the private sector is expected to contribute about Rs. 29,000 crore, or over ten times the investment of the public sector. This again emphasises the need for a major effort to mobilise resources for housing and for the government to take up related subjects such as making available developed land on the required scale and to make necessary policy changes in the way of housing activity such as

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modifications in Rent Control and ULC Laws, building regulations, planning standards, various administrative and legal obstructions, etc. As part of the "International Year of Shelter for the Homeless" and in recognition of the inadequacy of public effort so far, the goal of the government in housing appears to be not so much to build itself, but to promote housing activity through the supply of necessary fiscal and financial infrastructure and physical elements required for housing. The effort would be to minimise the constructions role of the government and expand the facilitating activities for large-scale construction activity by the public.

It is true that the existing specialised housing finance institutions, *viz.*, HUDCO, HDFC and the cooperative housing finance societies have contributed significantly to meet housing requirements of different income groups. HUDCO has, by and large, assisted public housing agencies to take up construction of houses and development of house sites. It has not given loans directly to individuals. It is only HDFC and cooperative housing finance societies which are meeting the financial needs of individuals or groups directly. LIC, of course, has been a major provider of funds to the cooperative sector. Commercial banks, by and large, have not contributed significantly to support housing activity and most of their investment is channelled through HUDCO or public housing agencies in the form of debentures. A survey made by the National Institute of Public Finance for the Ministry of Urban Development revealed that the households in the lower income groups, as also residents in small towns, faced great hardships in obtaining funds for housing. Access to the formal housing finance is greater in the large towns than in smaller towns. Specialised housing finance institutions make a negligible percentage of contribution to the housing finance needs of home owners even in larger cities and there is a heavy dependence on the informal housing finance. The dependence is normally greater in smaller towns, but is most substantial in the case of lower income groups, providing as much as 92 per cent from the informal market. Poorer groups depend largely on personal savings and the liquidation of personal and family assets. The formal housing finance market also provides virtually no

finance for the home-owners in the age group of less than 25 years. Many poor households have little information about availability of financial assistance from the formal sector. Even if they are aware of these institutions, many of them are unable to fulfil stringent eligibility procedures for the loans, such as regular and verifiable source of income, acceptable collateral and various types of documentation. The formal system does not cater to the people having casual jobs or self-employment. Lower income groups are excluded from the formal system also by a number of operational requirements, such as linking of the loan amount to the income of the home-seeker, large initial contribution prior to sanction of loans, ratio of home-loan to home cost, irrational affordability criteria, complicated procedures, high rates of interest, and computation of the monthly instalments without taking into aecount the future growth in income of the borrower. Present system also does not cater to the great needs of the urban poor for small amounts for repairs, development or extention of their homes. The system also does not relate to community-based institutions for mobilising savings for purchase of various things, such as local chit-fund.

It is significant that the Seventh Plan document identifies lack of financial resources as a crucial constraint on housing activity in the country. It is further recognised that the real problem in this regard is the absence of any institutional system at the grassroot level which can mobilise existing household savings in the economy for investment in housing by encouraging individuals to invest in housing at early stages of their earning life and provide institutional financial intermediation on a large-scale. Seventh Plan emphasises the need for establishment of proper diversities in institutional structure for housing finance and construction. While HUDCO and HDFC should be strengthened, vast majority of individuals seeking houses would need to be looked after through the creation of local level housing finance societies. These societies are expected to raise deposits from the public, *viz.*, prospective home-owners and also draw upon funds from the capital market with the help of different financial institutions. To facilitate this process, Government of India proposed to set up a specialised financial institution

in the form of National Housing Bank on the lines of NABARD. This bank is expected to seek funds from the capital market besides obtaining contributions from some of the funding institutions. A network of local level institutions in the form of credit societies or savings and loan associations are considered to be necessary for mobilising resources from the household sector.

In order to implement this laudable objective, major initiatives are needed on the part of the Central and State governments, in order to mobilise more funds for housing for all income groups and to make it easier for the people to raise long-term funds for house construction, to meet variety of financial needs for repairs, construction, purchase of houses, individually or collectively, in towns of different sizes, in various financing packages. In this task, it is necessary to link formal housing finance market in the form of proposed National Housing Bank, HUDCO, HDFC, Cooperative Housing Finance societies, and the commercial banks with the programmes of the public housing agencies and the municipal bodies, as well as specific needs of individuals. The system has to take note of the varying needs of the prospective beneficiaries of the housing finance system according to the size of the urban area, location of the house, income, type of occupation, savings and the expenditure pattern, purpose of the loan, the manner of acquiring or constructing or repairing house, time span of construction or acquisition envisaged, extent of access to non-institutional sources of finance, etc. There will also be difference for the potential seeker of legal shelter and those in need of legitimising and upgrading their present illegal shelter. Thus, the institutional form to be devised for housing finance will have to be varied, flexible and decentralised enough to take note of the different profiles and requirements of the prospective beneficiaries in different urban areas. Setting up such a framework involves:

(a) Strengthening the existing system by tackling various perceived inadequacies and through the provision of support services to spread risk and increase liquidity;

(b) Mobilisation of increasing volume of household

savings by the development of special institutional mechanisms and financial instruments like loan-linked sales, chit funds, housing lottery, etc.;

(*c*) Development of innovative, non-conventional approaches and delivery mechanisms to provide housing finance to hitherto non-eligible groups of population and sectors of activity;

(*d*) Closer interaction of formal and informal housing finance markets, as also integration of public housing activity and finance market;

(*e*) Attainment of greater recirculation of available financial resources into the housing sector by systems of refinancing, secondary mortgage system, streamlined conveyancing and other legal instruments; and

(*f*) Rationalising and supporting legal systems of Rent Control, ULC and Cooperative legislations, building regulations, planning standards, etc.

It has been recently decided by the Government of Maharashtra to set up a housing finance institution at the state level which will link up with the proposed National Housing Bank. Details of organisational structure of the institution as well as its areas of operation for resource mobilisation and advancing loans are being worked out in the light of a study made by an expert organisation. The major findings that emerged from an analysis of the survey of the economic status of households in selected major towns of Maharashtra are significant from the point of view of developing suitable institutional structure for resource mobilisation. While monthly incomes are relatively stable in the formal sector, they are highly volatile in the informal sector. The magnitude of fluctuations in the informal sector is substantial and the high income period extends over a few specific months each year. This, in turn, is linked to changes in economic activities such, as, tourist traffic, harvesting of crops, etc. Households also incur lumpsum expenditure periodically for purposes like marriage, travel, medical treatment and purchase of land and houses. This expenditure amounts to as much as Rs. 200 to Rs. 300 or 10 per cent to 17 per cent of the average monthly household income, if the lumpsum expendi-

ture is distributed equally. Normal savings ratio, *i.e.*, income less monthly expenditure is about 26 per cent, while comprehensive savings rate, *i.e.*, normal savings less imputed lumpsum expenditure is 9.3 per cent. These rates suggest two limits of savings out of current incomes. Monthly savings out of current incomes average Rs. 480 for the formal sector and Rs. 312 for the informal sector. Most of the savings of the formal sector are put in the banks because of their wide network of branches and easy withdrawal facility. About 60 per cent of the proposed investment for acquiring a house is expected to be raised by the formal sector families through an institutional home loan and the balance from family savings, sale of assets and loans from friends and relatives. Over two-third of the informal sector respondents felt that they can save on a monthly basis up to Rs. 100. Larger saving capacity was indicated by the form l sector groups. Maharashtra households appear to be in favour of fixed contractual savings scheme under which they would voluntarily place fixed amount in housing finance institutions on regular monthly basis, and further many are eager to save in order to acquire a house over a period of time. Response of the respondents gives some idea of the type of saving instruments that have to be developed by the housing finance institution with reference to the four major aspects, *viz.*, anticipated periodicity of savings, purpose of saving, time-period for which savings can be made and rate of interest expected on the savings. Majority of the households are prepared to place their savings in housing finance institutions for periods extending from one to three years and more than and fourth favour long-term deposit schemes extending to more than three years. They do not appear to expect high rate of interest on their savings and more than 50 per cent would be satisfied with interest rate of up to 8 per cent.

In the light of the study made by MHADA and the state government, it is possible to consider a variety of saving schemes to mobilise savings of the households for housing finance institutions. First would be fixed monthly savings scheme in order to mobilise savings of people, who may not like to take home loan in the near future. This is similar to the monthly recurring deposit scheme of the commercial banks and period may range from one to five years. This scheme is also meant

for normal investors and has to offer a rate of interest comparable with HDFC or commercial banks, with facilities for temporary withdrawals and preferntial tax treatment. Second would be the savings scheme operated by the HDFC on the model of West Germany. This would be meant for people who save in anticipation of home loan in the near future and would be linked to deposits. Individual would be required to save for at least three years by stipulated monthly savings and would be eligible for a loan after 18 months of the last instalment of savings. Home loan would be available up to a multiple of the accumulated savings. Rate of interest to be paid for the deposits would be lower than prevailing market rate, while preferential rate of interest will be charged for the home loan. In this system, it is necessary to guard against liquidity problems in case the rate of maturity of home loans is faster than the rate of inflow of fresh savings and there may also be some necessity for rationing the credit. Under the third system of graduated savings, individual would be free to alter size of monthly savings provided he achieves a particular savings target by specific date. There-after he would be eligible for home loan after 18 months. Other savings instruments would include housing bearer bond, which could be purchased by individuals and charitable trusts without seal and would be eligible for exemption from wealth tax. Government can also operate a housing lottery scheme similar to the Delhi Development Authority and the prize-money could be permitted to be invested in housing with preferential tax treatment.

While housing finance institutions would be responsible for mobilisation of savings and advancing loans at the State and regional level, the existing network of credit institutions should be primarily used for mobilising savings of the individuals. The cooperative financial network in the State of Maharashtra has extended into virtually all the urban areas and large villages and meets a variety of financial needs of the depositors. Commercial banks have also a large network of branches. The LIC and UTI have also set up a network of agents for mobilising savings of the individuals for investment in their programmes. Attempts should be made to utilise this network for encouraging individuals to save in order to acquire

a house instead of seeking to set up separate network under the housing finance institution.

Apart from the savings directly mobilised from individuals, the housing finance institution would also draw upon savings of individuals indirectly by tapping institutional savings like provident fund, group insurance contribution, and other contractual savings with employers. Government of India has already decided to divert a proportion of the annual accumulation under Group Insurance Scheme to HUDCO for taking up housing schemes for Central Government employees. It is possible for the state government to divert a portion of such contribution of their employees for loans to be advanced to employees individually or collectively for taking up house construction or for purchase of houses or for repair and renovation. These loans should be routed through Housing Finance Corporation. Similarly, a portion of the employee provident fund should be allowed to be deposited with the Housing Finance Corporation for advancing loans. It is possible to persuade such public sector undertakings and urban cooperative banks to deposit their funds on short-term basis with Housing Finance Corporation.

The mobilisation of savings by individuals and groups is also related to the manner in which this effort is tied up with the activities of the public housing agencies and local bodies in the field of housing, slum upgradation and house repairs. It has been found that many individuals are not able to take up construction on plots alloted to them or available with them for want of funds and they would be in a position to mobilise funds even up to 40 per cent of the required cost of construction if balance funds are provided by institutional sources. Slum-dwellers have also displayed great innovation in taking up slum upgradation of their dwellings if funds are provided even on short-term basis and land is allotted to them on long-term tenure. Efforts have been initiated in Bombay to persuade the urban cooperative banks to advance loans to groups of slum-dwellers or to cooperatives of plot-holders to enable them to take up construction of houses and this has been facilitated by the MHADA intervening to provide services like technical help in the preparation of estimates, speedier building permission, relaxation of building regulations, assistance

in ihe formation of societies and designation of special cell of officers to help beneficiaries. Cooperatives of old home-owners are also being assisted to take up repairs of their buildings with the help of loans from Cooperative banks through the mediation of MHADA. As mentioned earlier, housing finance, by itself, will not result in the creation of affordable shelter, or upgradation of houses, unless it is supported by a series of legal and administrative steps by the government and public, facilitating action by the public housing agencies. In fact, some of the housing loans for house repairs or slum upgradation may have to be routed through local bodies to ensure flexible and decentralised implementation and community participation and to ensure maximum recovery of loans. This has been illustrated by the successful working of the Urban Community Development Project in Hyderabad. In our eagerness to create new institutional forms to address the pressing problems of access to housing finance for different groups of individuals, the larger focus on constraints to housing activity in general from the point of view of institutions as well as individuals should not be lost sight of.

Pattern of Household Savings and Asset Formation with Special Reference to Housing

*B.L. Pandit**

Food, clothing and housing are three basic necessities of life. Of the three, an own house is the most expensive and therefore the most coveted possession of life. The draft outline of the Seventh Five Year Plan clearly recognises the fundamental importance of housing in fulfilling the following objectives:[1]

(1) providing shelter; (2) raising the quality of life particularly for poorer sections, in terms of health sanitation and education; (3) creating substantial additional employment and dispersedec onomic activity; (4) improving urban-rural and inter personal equity through narrowing down of difference in standards of living; and (5) the desire to own a house being the strongest, housing can influence an individual's willingness to save and thereby generate additional voluntary saving.

Demand for Housing—Main Determinants

Although housing is a basic need for everybody, demand for housing has its own determinants. Some of the important ones are as follows: (*i*) Level of income both individual and national; (*ii*) level of population; (*iii*) rent structures; (*iv*) sociological changes like break up of joint family system,

*Faculty of Economics, Motilal Nehru College, Delhi University, Delhi.

[1]*Seventh Five Year Plan, 1985-90*, Vol. 1, Government of India, Planning Commission, p. 292.

(*v*) system of working women, and (*vi*) age-composition of population.

Out of the factors listed here, the effective demand for new housing depends upon the level of income both individual and national. Income elasticity of demand for housing varies among income groups from being greater than unity to zero. So housing shortage should not be considered as independent of the level of income but is income specific.

Demand for housing also depends upon the level of population and needless to add the relation between the two is positive. The impact of rent structures, *i.e.*, various levels of house rents on demand for new housing shall be positive. Higher the house rents, greater shall be the propensity to own a house, other things remaining the same.

Besides these economic factors, demand for housing is also influenced by sociological changes like the break up of joint family system in a traditional society. Between the break up of a joint family and the effective demand for a new house, there will be an inevitable time lag, but the relationship between the two is doubtlessly positive.

Another socio-economic change that influences the demand for new houses is the increase in the number of working women. Larger the number of working women, greater the propensity of the couple to live near the place of work of the female partner. This can increase the demand for new houses. An important implication of increasing number of working women is that it adds to the family income and will lead to an increase in the effective demand for new housing.

Age composition of population can also influence the demand for new houses. If age composition is tilted towards the working population group (15-55 age group) it implies greater dispersal of population in pursuit of jobs and therefore greater demand for new houses. On the other hand if the percentage of dependent population (0-15 age group and +55 age group) is larger, demand for new houses may be subdued. The reason is that larger the number of dependents stronger is the compulsion to live together and lower shall be the demand for new houses. It should also be pointed out here that the greater number of working population can also

have a favourable impact on the effective demand for new housing. (Age composition can influence supply of new houses too and this is taken up in following paras.

Supply of Housing—Major Determinants

Some of the important determinants of supply of housing are as follows: (*i*) Level of income; (*ii*) rate of saving and capital accumulation; (*iii*) availability of alternative avenues of investment and comparable rates of return on such investments; (*iv*) long term rate of interest; (*v*) availability of credit; (*vi*) availability of building materials; (*vii*) laws of taxation especially those related to property; and (*viii*) legal provisions on rent control and the related social conventions.

The magnitude of new housing accommodation created in a given time period is primarily determined by level of income. Like all other types of investment. Income elasticity of supply of housing is positive. Next to level of income, it is the overall rate of saving and asset accumulation that shall determine the amount of investment in housing and thereby influence its supply.

An investor, however, does not operate in a vacuum. He has before him an array of financial and non-financial assets with a spectrum of alternative rates of return. For obvious reasons the elasticity of supply of housing *vis-a-vis* these rates of return shall be negative.

Long-term rate of interest is another decisive variable in the context of supply of housing. It is well known that investment in housing implies locking up of resources for a long period of time. The long run rate of interest which represents cost of finance needed for investment, should exercise decisive influence over supply of housing. But empiricial studies conducted in the field of investment point towards a very uncertain and ambigious relationship between rate of interest and capital formation. Klein and Goldberger (1955) and Klein and Ball (1961) are such two important studies, which underline the ambiguity about the sign and significance of the interest rate variable in an investment function. However, De Leeuw (1964) and Goldfield (1966) among others have stressed that the rate of interest is an integral part of any investment function. Housing, we know, is a long-term

investment where rate of interest should be a fairly important determinant. Distinction must, however, be made between investing/borrowing for one's own house and investing/borrowing for building houses for sale, hire-purchase or for letting out. For acquiring one's own house a high rate of interest may not be a deterrent since the urge to acquire one's own house is quite strong. For the rest of the housing investments, rate of interest can be expected to be decisive.

But as Redcliffe Committee has observed that credit availability, rather than the rate of interest, is the more important determinant of investment in long term assets like housing. The Committee considers credit availability to be "crucial for financing construction, additions to stocks and other regular items of expenditure".[2] The critical importance of finance is on account of large financial requirement that housing entails generally of a level that cannot be satisfied by personal savings of a household. Further being an item of fixed capital finance for housing is invariably needed at a stretch. Both of these factors underscore the crucial importance of availability of finance.

While supply of finance is crucial, one cannot lose sight of availability of building materials. Any shortfall in these raises cost of construction and therefore affects the supply of housing. For keeping the construction costs under control the authorities have to ensure easy availability of building materials to the households and agencies responsible for housing programmes.

The rate has also to ensure that tax laws especially those relating to property are not too restrictive to discourage house builders from acquiring housing property. The tax on houses should be of such a level which leaves enough margin so as to cover the average cost of construction besides allowing a reasonable rate of return. In some metropolitan cities including Delhi, taxes on housing property have been observed to be too high.

Finally the State has also to evolve judicious rent control measures and enforce them. The level of rents, especially the

[2]*Report of the Committee on Working on Monetary System* (1959), London, HMSO, p. 132.

provisions regarding the eviction of tenants have to be strictly enforced. Forcible occupation of rented houses by tenants is gathering momentum in big cities and towns. This is acting as a disincentive to potential builder of new housing accommodation. If housing supply is to be increased, rent control and tenancy laws have to be suitably modified and strictly enforced.

HOUSING SHORTFALL IN INDIA—CENSUS DATA FOR 1981

In an underdeveloped country where 45 per cent of people are poor, provision for food and clothing is a Herculean task for the most. While to own a house of a reasonable durability is considered a dream by the poor, vast majority has to put up with inhospitable housing conditions and a large number are shelterless. According to the Census of 1981 more than 23 lakh people are absolutely shelterless who squat in the open. The statewise position is given in Table 1.

If we rank the states and union territories according to their per capita income, Maharashtra and Gujarat rank second and third respectively. Yet these two states rank first and third in respect of shelterless population which implies that difference in per capita income alone cannot explain the differences in the number of shelterless people. Similarly, UP which has the largest population does not have the largest number of shelterless people. Looking more closely one can say that the most important phenomenon responsible for houselessness is the migration of people from rural to the urban areas in pursuit of jobs. Those migrants who are illiterate, unskilled and resourceless are forced to live without shelter at least in their periods of joblessness.

But the data on the number of shelterless do not indicate the extent of housing shortage although they do depict a grim picture about the nagging socio-economic dimension of the housing problems. It is not enough to have a roof over head. What the nation has to plan for are houses of a reasonable durability. National Building Organisation has estimated that housing shortage in 1981 was around 21 million dwelling units. The Planning Commission places the housing shortage at the beginning of the Seventh Five Year Plan at 24.7 million

TABLE 1 HOUSELESS POPULATION

Sl. No.	*State/Union Territories*	*No. of houseless households*	*No. of houseless people*
	States		
1.	Andhra Pradesh	68817	250866
2.	Bihar	13740	60184
3.	Gujarat	68434	310414
4.	Haryana	10554	43698
5.	Himachal Pradesh	4625	23929
6.	Jammu & Kashmir	2215	10792
7.	Karnataka	36087	127750
8.	Kerala	10113	21746
9.	Madhya Pradesh	89439	332437
10.	Maharashtra	152657	542457
11.	Manipur	36	128
12.	Meghalaya	80	335
13.	Nagaland	125	258
14.	Orissa	16986	50761
15.	Punjab	11923	56372
16.	Rajasthan	39294	166815
17.	Sikkim	412	1306
18.	Tamil Nadu	17245	57461
19.	Tripura	202	409
20.	Uttar Pradesh	28766	108540
21.	West Bengal	39232	132802
	Union Territories		
1.	Andmans and Nicobar	174	178
2.	Arunachal Pradesh	NA	NA
3.	Chandigarh	1299	4047
4.	Delhi	13057	26870
5.	Dadra Nagar Haveli	245	1025
6.	Goa Damanand Diu	2618	7198
7.	Lakshadweep	3	3
8.	Mizoram	50	375
9.	Pondicherry	1501	3798

dwelling units—18.8 million in rural areas and 5.9 million in urban areas.

INVESTMENT IN HOUSING IN FIVE YEAR PLANS

The government has been doing its best in housing. Central Government has been providing subsidised housing on a limited scale for the economically weaker sections of the community like slum dwellers, industrial and plantation workers and in providing finance to the state governments and the housing boards for undertaking composite projects of land acquisition and housing construction to cater to the needs of poor, low income groups. Limited financial assistance has also been provided to individuals in poor low income groups of rural areas. The major part of the effort in housing has however been done in the private sector. It is only during the Fifth Five Year Plan that for the first time serious efforts were made to develop house sites for the rural poor and other economically weaker sections.

TABLE 2 INVESTMENT IN HOUSING DURING PLANS

(*Rs. in crore*)

	Ist Plan	*2nd Plan*	*3rd Plan*	*Annual Plans (1966-69)*	*4th Plan*	*5th Plan*	*6th Plan (1980-85)*
Public Sector Investment	250	300	425	250	625	796	1839
Private Sector Investment	900	1000	1125	900	2175	3640	11500

SOURCE : NBO, *Housing Statistics, 1982-83.*

By any reckoning, the level of public sector investment in housing has been inadequate. This is shown in Table 2. Table 3 shows that compared to other countries gross fixed capital formation in housing in India is the lowest. The Planners have openly admitted that while government is committed to arrange funds for investment in housing projects of the poor and economically weaker sections, for low and middle income groups, private sector shall have to come forward in channelising its funds towards housing. In the Sixth

TABLE 3 GROSS FIXED CAPITAL FORMATION IN HOUSING AS PER CENT OF GDP

Country	*Year*	*Percentage*
Canada	1972	4.7
US	1972	4.3
Japan	1972	6.6
France	1971	6.4
Federal Republic of Germany	1970	5.1
UK	1972	5.2
Australia	1972	5.4
India	1981-82	3.5
Philippines	1972	2.2
Sri Lanka	1971	8.4

SOURCE : NBO, *Housing Statistics, 1982-83.*

Five Year Plan it is stated that "in view of the constraints on public resources, there should be greater encouragement of the private sector to step up its activities in the construction of housing for low and middle income groups. Imaginative schemes of improved facilities for financial intermediation in this sector will have to be investigated in order to achieve this objective".[3] In the Seventh Five Year Plan it is again reiterated that although government, private corporate and co-operative sectors and the household sector shall have to make coordinated efforts, "the responsibility of house construction would have to be left to the private sector in particular the household sector".[4]

PATTERN OF HOUSEHOLD SAVINGS AND ASSET ACCUMULATION

The questions that arise at this stage are that since role of household sector in housing activity has been emphasised can the household sector bear this responsibility ? What is the pattern of household savings and asset accumulations ? How can households be involved and motivated to consciously save

[3]*Sixth Five Year Plan 1980-85,* Planning Commission, Government of India, p. 389.

[4]*Seventh Five Year Plan 1985-90,* Vol. II, Planning Commission, Government of India, p. 292.

for housing on a larger scale than at present? To these questions we shall now turn.

Household sector, which is the residual sector after we exclude the private corporate and government sectors, is the only surplus sector in the economy. The recent upsurge in aggregate savings is in large measure on account of the phenomenal increase in the household savings, especially savings in financial assets. From Rs. 62 crore in 1950-51 financial savings of households have increased to Rs. 9,727 crore in 1981-82. For the year 1981-82 the structure of household saving in financial assets was as shown in Table 4.

TABLE 4 SAVING IN FINANCIAL ASSETS, 1981-82

Household saving in	*Amount Rs. crore*	*As Per cent of total financial saving*
(*i*) Currency	984	10.11
(*ii*) Net Deposits	3,114	32.01
(*iii*) Shares and Debentures	705	7.25
(*iv*) Net claims on Government	1,569	16.13
(*v*) Life Insurance Funds	969	9.96
(*vi*) Provident and Pension funds	2,386	24.54
Total Financial Saving	9,727	100.00

Out of the total household saving of Rs. 18230 crore in 1981-82, Rs. 9,727 crore were in the form of financial assets which forms around 52 per cent of total household saving. One may here distinguish between 'contractual' financial assets such as provident funds and insurance premia and 'non-contractual' financial assets exemplified by rest of the assets. While saving in provident fund and insurance securities is a contractual commitment, saving in bank and non bank deposits, net claims on government such as small savings, annuity deposits, etc., and investment in shares and debentures are 'free' savings. These savings have risen remarkably in recent years.

Apart from financial assets, households also save in physical assets, *i.e.*, acquire durable capital goods which includes investment in housing. The time series data for such investment are obtained residually and are not available on a regular basis. In order to keep into the components of household investment, one has to rely therefore on cross section data. National Council of Applied Economic Research (NCAER) has conducted various surveys with this purpose. Tables 5 and 6 throw light on the volume and pattern of household savings and on household investments in housing respectively.

From Table 6 it is clear that self investment by households in housing is hardly 2.31 per cent of their income and 11.54 per cent of their capital formation. Table 5 shows that investment in housing is hardly 5.5 per cent of their total savings (including capital formation). If we look at investment in housing by low income groups, it is between 0.25 to one per cent of their income. This underscores the need for diversion of more financial resources towards housing.

POLICY IMPLICATIONS

Table 4 clearly indicates that household sector invests a large amount of its surplus in financial assets. In other words, by purchasing financial assets, the said amount is lent to the private corporate and public sectors through various kinds of financial intermediaries. It is also significant that due to progressive spread of intermediation, financialisation of savings is on the increase. What is needed, therefore, is an appropriate institutional framework that can channelise resources available within the household sector towards housing. A series of steps can be taken in this direction:

1. A housing refinance corporation for providing refinance facilities to those institutional investors which divert a part of their resources towards funding housing projects for the poor and economically weaker sections.

   Government of India have recently announced the

TABLE 5 VOLUME AND PATTERN OF NET HOUSEHOLD SAVINGS, 1967-68

Form of saving	*Urban net saving (Rs.million)*	*Per cent of net saving*	*Rural net saving (Rs. million)*	*Per cent of net saving*	*All India net saving (Rs. million)*	*Per cent of net saving*
1. Agricultural and Allied Pursuits	431	6.1	8385	64.6	8816	44.0
2. Self Employment in Non Agricultural Pursuits	1834	25.9	1513	11.7	3347	16.7
3. Housing	(—)139	(—)2.0	1244	9.6	1105	5.5
4. Financial Assets	4955	70.0	1824	14.1	6779	33.8
5. Total Household Saving	7081	100.00	12966	100.00	20047	100.00

TABLE 6 AVERAGE INVESTMENT IN HOUSING CLASSIFIED BY INCOME GROUPS, 1975-76

Income Groups (Rs.)	*Investment in housing as per cent of total investment of households*			*Investment in housing as per cent of total income of households*		
	Rural areas	*Urban areas*	*All areas*	*Rural areas*	*Urban areas*	*All areas*
Up to 3600	5.02	—	4.61	0.33	—	0.29
3601—7500	9.26	3.69	7.87	1.33	0.44	1.06
7501—15000	14.34	9.15	12.43	4.21	2.02	3.25
15001—30000	15.65	14.05	14.82	6.81	5.59	6.15
30001—and+	7.82	17.54	14.34	4.16	9.15	7.53
All Groups	11.52	11.57	11.54	2.06	2.82	2.31

formation of a National Housing Bank within three months, which would serve the purpose of refinancing.

2. A housing loan insurance corporation may be set up which can provide insurance cover to the housing loans being a long-term investment, a housing loan involves a risk to the lenders. The proposed insurance cover can reduce that risk considerably.
3. Housing loans which are insured should be put under the "Approved Securities clause" of the Life Insurance Corporation of India and Provident Fund Organisation.
4. Financial intermediaries like Housing Development and Finance Corporation can raise money through issuing housing bonds. Investment in such bonds could be made attractive by providing appropriate tax concessions to the investors.
5. At the local level a network of building societies can be formed which can pool the financial resources of the potential housebuilders. These societies can be registered and their accounts audited. This can lend these societies a degree of accountability and continuity. By doing so, the programme of 'self help' as envisaged in the Seventh Five Year Plan can be realised.

Black Money and Development of Urban Real Estate

*Arun Kumar**

Real Estate has traditionally been accepted as a major source of generation of black incomes.[1] In fact, in a transaction involving sale of real estate, while black incomes are generated for the seller, the purchaser finds a resting place for his black money. Alternatively black money (or white money converted to black) is needed to finance the purchase of real estate. By definition, this is illegal and, therefore, needs sources of financing which are not legal. The question is, does this impede housing development in India ? One also has to ask that even if the involvement of black money does not impede development of housing in India, does it cause undesirable distortions ?

Some may argue that black money which otherwise would have been dormant or used for unproductive purchases actually spurs a productive activity (housing). This may be considered specially good by some who point out that this activity provides large employment potential and due to its backward linkages can act as an engine of growth.[2] In fact, it is suggested that official sanction can be given to black money flowing into housing development through creation of funds for slum development; the source of investment in these funds would not be asked so that black money could be invested in this manner.

*Associate Professor, Jawaharlal Nehru University, New Delhi.

[1](*a*) Government of India, Ministry of Finance, *Report of the Direct Taxes Committee*, New Delhi, 1971, (Chairman, N.N. Wanchoo); (*b*) National Institute of Public Finance and Policy, *Aspects of Black Economy in India*, 1985.

[2]NBO and Planning Commission argue this.

These questions have acquired an urgency because of the burgeoning urban population in the country. It has been suggested by the Planning Commission Task Force on housing that by year 2001, India would have an overall population of around 1,000 milions. Of this figure, the percentage of urban population is expected to rise from around 23.5 per cent in 1981 to around 31 per cent by the year 2001. In other words, the urban population is expected to rise in absolute numbers from 145 million to around 310 million, *i.e.*, more than double.[3]

As it is, the housing shortage in the country is enormous. For the major cities, for which data are available, the number of homeless families, the number of families living in slums and in one room tenements are all going up. It is cities with populations of above one lakh which are slated to have their populations rise by 250 per cent. Thus, in any housing programme, one must consider that not only would any urban housing activity have to cater to the needs of the additional numbers but even provide for adequate housing for those who do not have the minimum facilities.

It is in these major cities that the price of real estate and its black component are the highest. Thus, it can be expected that precisely where the shortages of housing would be the largest, the involvement of black money would also be the largest. As such, one has to clearly understand the impact of black money on real estate development. In this context, it appears that rise in prices of real estate may themselves contribute significantly to the growth of associated black income generation. Further, if the pressure of urbanisation accelerated in the existing urban areas and leads to an accelerated price rise, *ceteris paribus*, the associated black incomes would also grow. Thus, the nexus between price

[3]Government of India, Planning Commission, Task Force on Housing and Urban Development, New Delhi, 1984. The share of rural population is correspondingly expected to decline during the period even though in absolute terms it would go up from 530 million to 700 million. The absolute increase in rural areas is larger than in urban rural areas but the black components involved are usually lesser, hence, the concentration in this paper on urban real estate.

rise, black money and real estate is likely to become stronger. There is a need to understand this link.[4]

Undervaluation of Real Estate

Real Estate has an economic value associated with it because it yields in an economic return to its owner. The return may be actual or potential. As long as there is no market for sale of real estate, there is no reason to attach a value. One can simply talk of the annual stream of return from it. When a market develops for real estate, the question of attaching a value arises.

Valuation of land or real estate is too complicated on account of the fact that it is heterogeneous and different pieces of it yield different income streams. The income streams may also differ because the full potential of the land may not have been exploited. The potential of itself being governed by the laws of the land. For instance, zoning laws may allow a larger or a smaller amount of construction on the piece of land and the use to which the land may be put. People's subjective preferences also outer their notion of value of a property.

However, the heterogeneity would not have mattered much if the income stream could be identified and the rate of discount to be used is known. At a point of time a uniform rate of discount may be applied to all streams of returns. This may be worked out on the basis of the prevailing notions of risk and liquidity attached to land and the structure and returns in alternative investments. Thus, a market value could be arrived at.

This simple picture gets complicated the moment taxes are introduced. A vested interest develops both for the buyer and the seller to undervalue the property being transacted. In India, a property faces a multiplicity of taxes—wealth tax, house property tax, estate duty, stamp duty, transfer charges,

[4]Unfortunately, this feature seems to have been ignored in urban planning. For instance in the NCR document as reproduced in *Vikas Varta*, Special issue 1985 or in the various discussions that have taken place on the subject. Even the Planning Commission's Task Force on Housing and Urban Development does not deal with the subject at length.

and capital gains tax. Thus, a successful under valuation of property allows a substantial benefit to the property owner.

It needs to be noted that what is important is a successful undervaluation of property and not the effective rate of tax. The effective rate of tax may only determine the extent of gain and if the prevailing morality allows, higher the gain, the higher may be the effort to undervalue. These efforts may or may not succeed depending on the tax laws enforcement. The high effective tax rates by themselves cannot determine the extent of undervaluation. The social moral norms, the deterrence and the difficulty of getting away are all important.

Anyhow, once undervaluation for tax purposes becomes prevalent, given the associated illegality, the market value of real estate is not generally determinable and the heterogeneity of real estate gets its full play. Every factor which would depress the value of real estate, for purposes of official records, is brought into that play. Thus, we have a phenomenon whereby there is an official price of a property which is widely known and an unofficial market price of the property known only to the people specialising in real estate transactions. The difference between these two prices is the undervaluation of a property. Since it is this difference which escapes all taxes, it constitutes the black component of the price.

The above suggests that because of the tendency to undervalue real estate, the market for real estate transaction passes into the control of specialists. There are real estate brokers, financiers and speculators. They have considerable clout with politicians and are also able to buy influence with the bureaucrats. A nexus develops in the system where transactions which do not involve any black payments become rare if not non-existent.[5]

The coincidence necessary for a completely honest transaction requires people who are willing to show their assets and for bureaucrats to accept the transaction as honest. It needs to be noted that an honest transaction is a threat to the corrupt bureaucrats and real estate speculators. The price in

[5]A. Kumar, "The Chequered Economy in Black and White", *Economic Political Weekly*, March 30, 1985.

such a transaction would become the norm and make future undervaluation difficult. Thus, hurdles would be created for such a transaction.

In fact, the market for real estate is fairly well controlled and prices are set by informal cartelisation. It may be surmised that bulk of real estate transactions have major speculative elements in them. Purely need based sales and purchases of real estate may not be many in number. The statement is based on the limited data available from Delhi and Bombay.

In the case of Delhi the annual number of real estate transactions, averaged over the period 1973 to 1980 comes to around 4000. However, during the emergency this number fell dramatically to less than 25 per cent of the average. Similarly, in the case of Bombay where the real estate transactions are dominated by sale and purchase of flats, when a deterrent provision pertaining to acquisition of undervalued properties was introduced in July 1982, the number of transactions decline to zero.

The monthly number of transactions gradually rose and peaked after 18 months at about 1,600 transactions per month and stayed at that figure. If the figure of 1,600 transactions per month could be taken as the normal figure, it would appear that for about a year, people postponed their sale and purchase of real estate.

If one accepts the hypothesis that cartelisation and fixing of prices is a major cause of price rise and of generation of black incomes in real estate, one has also to understand why the supply of real estate is limited and why the purchasers of real estate are unable to apply pressure or put up a resistance.

The supply of real estate is controlled directly and indirectly. For example, it is known that in Bombay around 4,000 hectare of land is available and the entire slum population can be accommodated, but the land is owned by big landlords (information presented, by the Civil Liberties groups to the Bombay High Court in a case filed against the Bombay Municipal Corporation in the Pavement Dwellers case). In another instance, in 1982 in Delhi when properties were auctioned by the DDA for commercial development, no buyers were willing

to come forward at the reserve price fixed for the auction. By this technique, supply was frozen to prevent prices from falling.

Supply has also been reduced in Delhi as a result of DDA itself not being able to procure land and build on it fast enough. However, encroachment on land has helped to increase availability of real estate. Yet, this encroachment cannot occur without the connivance of the politicians and the bureaucracy. Thus, once again, this supply of real estate is governed by price fixing cartels (though different) and involves a large amount of black income generation.

However, supply constraint is not enough to explain the rapid price rise in real estate. There are real factors which cause a one way movement in prices and this then forms the basis for a successful one way speculation in real estate. In turn, this rapid price rise, associated capital gains and the black incomes generation make real estate a desirable investment for black and white funds and therefore, to an accentuation of demand for real estate. These factors need to be studied.

One of the factors involved in the price rise is the increase in urban population. This affects the size of the urban agglomeration and pushes outward the urban habitable limits. Given the uniqueness of each parcel af land, the uniqueness of the central business districts is heightened. The rents they command go up and therefore, their values rise. The uniqueness of the central business districts is also heightened by the differences in the availability of infrastructure in comparison with the newly developing areas. To add to this, inflation in the economy boosts the cost of development of new areas and acts to increase the value of the already developed central districts of the town. Finally, as prices of land in central business districts go up, a redesignation of land-use occurs. More intensive development of land is allowed. In turn, this causes the potential earning capacity of land to go up and causes prices to rise further[6].

It thus appears that urban real estate price rise is rooted in the urbanisation process itself. The associated speculative

[6]These factors are akin to the extensive and the intensive marginal rents of agricultural land which are referred to by Ricardo.

activity, limited supply of urban land, general inflation in the economy, generation of black incomes and the inflow of black funds for investment in real estate add further to the price rise. The rapid price rise in real estate and the associated black incomes generation have created several problems.

Effects

The rapid rise in land prices has caused distortions in land-use pattern in urban areas. It has made encrochment on public land lucrative, has pushed the middle and lower middle classes into the periphery of urban areas lead to preferences for more intensive use of land and the related difficulties of population concentration and transportation, etc.[7]

Very crucially, it cause failure of public policy, like in the case of providing shelter to citizens in the lower income groups. Housing targeted specifically at them at concessional rates is sold by them to obtain a profit. Having sold their houses, these people once again encroach on land and/or have to commute longer distances to reach their places of work. The problem of encroachment and of inadequate housing remains unresolved. The policy is said to be a failure and pressure builds up to give up the goal of helping the weaker sections in this manner.

Similarly, as cost of providing services rise (land being an important cost element, pressures build for reducing the level of standards of services and infrastructure. To give an example the amount of land to be allotted to individuals in the Economically Weaker Sections has come down from over 100 sq. yds. in the fifties to 25 square yards in the present reckoning.

Quite clearly, the impact of price rise and specially the rise of black component is not uniform across the different sections of our society. First, the rapid price rise has given property owners a clear edge over the non-property owners. It has aggravated the concentration in wealth and led to a

[7]For instance, in the Delhi Urban area, it is projected that there would be an explosion of requirements of passenger trips which would be beyond the capacity of the available roads even after the maximum expansion possible.

majority of the people in urban areas to become encroachers or tenants. Secondly, the development of a large black component has meant that only those with black money can purchase real estate. This has meant that most salaried people in the middle and lower classes get excluded from purchasing land in urban areas.[8] These people, as mentioned earlier, are forced on to the periphery of towns with increasingly longer commuting distances.

To realise the differential impact of price rise and black income generation, it is necessary to get a rough idea of the magnitudes involved. In a study of prices of land in Delhi between 1971 and 1983 (as a part of the study on black income generation), the city was divided into 26 zones. After making various corrections[9] it was found that in each of the zone the prices rose quite steeply. These prices were found to be of the same order of magnitude as obtaining in the auctions conducted by DDA and the prices officially announced by the Ministry of Works and Housing for valuation of properties under their control. In most cases where a proper time series could be constructed, over the period, the rise was by more than 15 times. Clearly, the rise was much greater than the CPI or the WPI (a rise around 2½ times).

As regards undervaluation and black income generation, it was found that the broker level survey in Delhi revealed on undervaluation from around 25 per cent to 90 per cent of the true value. The cases of high undervaluation were there where a *pugree* had developed. The pugree is the capitalised value of the difference between the market rent and the actual rent to be paid.

When the data on undervaluation suspected[10] by the

[8]In some areas of Delhi, the residential land price rise between the fifties and mid-eighties has been almost 500-fold from around Rs. 10 per sq. yd. to around Rs. 5,000 per sq. yd.

[9]For the fact that commercial and residential properties command different prices. Leasehold and freehold properties have a price differential, etc.

[10]This is based on the initial judgement of the income-tax officer, unbiased by the legal and other provisions and based entirely on their market information. The undervaluation was measured as the ratio of balck to white.

income-tax department was studied, it was found that the lower valued properties were undervalued far more than the high valued properties. For properties of a value greater than Rs. 3,00,000, the majority (more than 50%) of the properties were under valued by less than 50 per cent. For properties in the category less than Rs. 25,000 the percentage undervaluation was mostly found to be over 200 per cent.

Thus, as a proportion (as opposed to the absolute amounts) the black money involment was greater for properties of lower value. Hence, one may infer that black money phenomenon would affect the middle and lower classes more than the upper income groups. In effect, the phenomenon of black income generation in real estate affects the poor and middle classes doubly. First, by causing prices to rise and making housing beyond their financial reach. Second, by involving a relatively larger percentage of black money which may not be available to them. In a related way, they are forced to convert their white savings into black even if not to posses black money.

Overall, one may argue that price rise and black income generation through their effect on policy, and differential impact on the various income classes aggravate the problems of housing in urban areas in India.

Remedies

If the above analysis can be taken to be true, then curbing price rise and the associated black income generation is essential to any programme of accelerated house building in urban areas. It has also been argued that the process of urbanisation itself provides the conditions for the price rise. As such, the country needs to take a hard look at whether the present policies which promote urbanisation need to be reviewed.[11]

The Planning Commission Task Force on Urbanisation seems to suggest that India is following the link between incomes and the urbanisation process found world over. This is taken to be normal, and, therefore, something to be encouraged. Quite clearly, what is forgotten is that if one was to

[11]Report of the Task Force on Housing and Urban Development, *op.cit*.

try to establish a link between city sizes and corresponding incomes, India would not be following the world pattern.

One may ask why is this more relevant ? The reason lies in the fact that to provide modern amenities the costs involved are not largely different so that the populations have to have the capacity to pay for these services. Large urban agglomerations with relatively poor populations unable to pay for the expensive services would either require large subsidies or would have to put up with inadequate services and urban decay.

Any review of our urbanisation policies must take into account the truism that concentration promotes further concentration. If job opportunities and better infrastructure are concentrated in some geographical regions, populations would flow into these areas. As long as these differentials are maintained the concentration would grow and make the differentials larger. Policies must work towards reducing concentration and the differentials.

At a lower level of policy the price rise and the associated black income generation may be curbed by providing large scale institutional housing. It ought to be recognised as an obligation of the employer. Yet another suggestion may be to nationalise the right to transfer real estate.[12]

If employers are forced to provide housing, there may be a move away from high cost densely urbanised areas and this would help mitigate growing concentration. This may also have an impact on the growing distances over which populations have to be transported. Thus, relieving pressures on transportation and infrastructure.

The nationalisation of the right to transfer real estate is likely to prove to be a very controversial suggestion. It implies that real estate cannot be transferred to anyone other than the State. This may be done at predetermined land prices (fixed zonewise) and with depreciated replacement prices of construction of the land. The right of the original owner would be recognised as long as it is not transferred to the State and then the State allots it to someone else. Thus,

[12] A. Bhadhuri, "Menace of Black Money: A Feasible Remedy," *Times of India*, August 12, 1981.

tenancy right would become unenforceable in courts of law.[13] Any pugree paid to purchase a tenancy always has the chance of slipping out of the hands of the tenant. No intending purchaser would be willing to pay a price higher than the Government would charge him for the same property given that his right would be unenforceable. No seller would be willing to sell at a price less than the Government would give him. Thus, transactions are likely to take place through the government only.

However, an objection may be raised that this would increase the power of the State and may lead to corruption. Property in preferred locations would command a premium and be given out for a consideration (monetary or patronage). It may also be suggested that properties may be locked up and not sold, thus reducing the supply to the market.

The suggestion that corruption and patronage may develop is likely to prove to be correct. However, what needs to be recognised is that we will have to give up the habit of thinking of today where real estate is a lucrative business and asset. Once it does not remains so and housing becomes more of need-based and loss of a speculative investment, the above mentioned considerations would be less applicable even if they do not disappear altogether.

Housing activity would receive a considerable boost if these policies are pursued since people would be able to afford their need.

[13]Similar would be the fate of the Power of Attorney transactions which are currently used to circumvent DDA restrictions on transfer of property.

Cost Recovery under Public Housing Schemes

*Sarala Gopalan**

You ask credit
I no give
You get mad
I give credit
you no pay
I get mad
Better you get mad.

—*Confucious*

INTRODUCTION

Housing in India, as in most parts of the world has been a private venture, left to individuals, to be taken care of a cording to their own capabilities of raising the material and monetary resources. Those who have been able to save or those in sound financial positions have been able to raise resources through borrowals and build. Low income groups whose savings have been poor and repaying capacity weak have not found lenders and have not been able to improve the state of their shelters. Who would lend to some one without a repaying capacity ?

Housing has not been looked upon as a developmental activity in India and no national policy framed to promote it as a major employment programme. In many developed countries almost 25 per cent of the GNP is related to the

*Secretary to Government of Kerala, Departments of Revenue and Housing, Trivandrum.

building sector and 20-25 per cent of the employment covered by this sector. In India less than two per cent of the employment can be claimed from this sector and resources available for being ploughed into this sector are limited owing to the competitive demands from various sectors and lower priority to this sector, its contribution to GNP is also very limited.

'Shelter' came into national focus with the introduction of the 20-Point programme of the Prime Minister; housing for economically weaker sections became one of the targets for monitoring, which placed some urgency on using the resources allocated to this sector and particularly for the economically weaker sections, as with the special component programmes for the scheduled castes and scheduled tribes population. The thrust on shelter has become pronounced with the declaration of the International Year of Shelter for the Homeless (IYSH) which has for its goal 'shelter for all by the year 2000' This calls for mobilisation of massive resources and policies for their utilisation in houses for the various income groups.

PUBLIC HOUSING AND ORGANISED LENDING

Public housing schemes and institutional lending for the purpose are of comparatively recent origin with national financing institutions (HUDCO, HDFC, etc.) and state housing boards, housing corporations for various categories of people like scheduled castes/tribes, fishermen, other economically weaker sections. Housing Co-operatives having been established mostly after the 1970s. The scale of lending by all of them put together has been very insignificant considering the need for housing, though in itself each institution has an impressive record. Due to lack of priority, the successive five year plans have been allotting resources for the housing sector on a sliding proportion from plan to plan.

Public housing schemes for economically weaker sections have an effect of dwarfing the physical targets as long as they remain as welfare programmes with whole or

substantial proportions as subsidies and grants. Where they aren't subsidies, the track record of recovery hasn't been encouraging for Administrations to take them along as major developmental activities with a multiplier effect on the capital formation by regular and quick repayments. It is most essential to arrest this trend and direct lending for housing on sound commercial lines such as to increase the momentum of this activity to achieve the target of 'shelter for all which is a very tall order.

THE STRATEGY FOR MASSIVE PUBLIC HOUSING

The dimension of the IYSH goal for a less developed country (LDC) like India is absolutely massive with its huge shortage of housing estimated at 24.7 million units in 1985 and projected to increase to 39.10 million units by the close of this century. As against this, the target of assistance for 2.71 million houses in the Seventh Plan sounds to be far too inadequate a stride to reach the heights by the year 2000. Strategically it is possible to plan for a housing activity from now to the year 2000 on the basis of a policy of recycling of resources with incremental additions to the stream assessed and planned year after year for further lending, such that the entire requirement of housing for all households is met by the end of the century. This requires careful harnessing of savings, particularly household savings, a strict credit policy, a healthy convention of recovery of the loans, phasing out government subsidies to strengthen the resource base of governmental and institutional lending agencies.

India has achieved a high proportion of savings (23.3 per cent in 1984-85) expected to rise to 24.5 per cent by 1989-90. To quote the Union Finance Minister from his Budget Speech:

> Among the developing countries India has the distinction of having one of the highest rates of savings. This is a tribute to the habits of hard work and thrift of our people. An important objective of Government policy in the last few years has been to provide opportunities for investment of these savings in productive channels, parti-

cularly financial assets. These policies have proved remarkably successful, and today, nearly 65 per cent of household savings are being invested in financial assets as against only 46 per cent of 1979-80. The household sector accounts for over 80 per cent of our national savings and the substantial increase in the holding of financial assets augurs well for the future development of our financial and capital markets.

It is necessary to work out a household savings linked investment in housing so as to attract more resources to the housing sector and also ensure the growth of the housing stock to the desirable extent to cover those that are in need. This would reduce the burden on the economy to provide resources for housing which has a high opportunity cost, particularly when raised by taxation and borrowing. It would be only reasonable to expect that the revenue from taxation and borrowings should be channelised into investment which have a high multiplier effect on the rate of growth of the economy. From this point of view, the home savings plan of the Housing Development Finance Corporation Limited is an excellent example of twin objective of providing financial resources to the todays' house builders and harnessing savings of individuals for their own homes in future. May we remind ourselves, that put in the right perspective, building activity can spurn immense potential for employment, incomes-savings which can be harnessed for greater economic development.

THE PROBLEMS OF COST RECOVERY IN PUBLIC HOUSING SCHEMES

An analysis of the recovery position of the various kinds of loans lent by the Kerala State Housing Board on a regular instalment repayment basis shows the following pattern. In the case of loans given to higher income groups, the recovery is 60 to 70 per cent. In the case of middle income groups, it is 50 to 60 per cent. In the case of low income groups, it is 30 to 40 per cent and in the case of economically weaker sections, it is around 25 per cent. The balance

cases are referred for revenue recovery to the revenue authorities and the amount strickle in over staggered periods. The situation is far from ideal.

Some of the reasons that make recovery of costs difficult are the practices followed by public housing agencies like: (1) their accounting system that does not reflect actual costs at any point of time causing under recovery at mid-periods, inflating the final amounts when the project is completed, (2) long periods taken for construction, etc., which brings a great variance between initial cost and final cost pushing persons from affordable to unaffordable categories, (3) the high building costs incurred by the public housing agencies.

ANALYSIS OF THE CAUSES FOR BOTTLENECKS IN RECOVERY

(*a*) The Technology-convention-cost-resources-nexus.

The irreconcilable state of affairs today is the accepted standards of construction based on materiels to be used for the construction, their commercial costs, specifications accepted by Engineers, according to the prescribed codes of construction, resulting in a mismatch between the final cost of the building and the income and saving level of the aspirant of the house. This is true of almost all categories of income groups. In the high income group a 1000 sq. fit. house is costed at Rs. 2.50 lakh plus. A middle aged salaried person drawing Rs. 3,000 per month cannot afford to pay more than 20-25 per cent of his income. But any lender would require him to pay over Rs. 2,000 per month. Can he make it? Similar is the case with the middle income group. They may somehow scrape through with some savings. What about the low income and economically weaker sections ? The situation is deplorable. To give an example, the lowest cost for a 200 sq. fit. house for the economically weaker section with permanent materials for wall and the roof will be Rs. 7,500. Normally he would be able to borrow 50 per cent of this. It is rarely possible for him to make a down payment of 50 per cent of this cost, particularly when this candidate happens to be an EWS, who by definition has an annual family income of less than Rs. 7,200.

Even granting that he gets the contribution made under the existing loan programmes of the HUDCO, he would have to repay at least 10 per cent of his monthly income, *i.e.*, roughly Rs. 60. The problem is that those who are below the poverty line are invariably far below it and therefore in their case, Rs. 60 may work out to anything between 20 and 50 per cent depending on the actual monthly income. This calls for designing technologies and cost structures to give respectable areas of buildings to people according to what they can afford in terms of repayment so that there is no default in the repayment and the programme of recycling of funds to more and more borrowers becomes a smooth function.

(*b*) It is necessary for Administration to insist on linking the borrowals to the income, strictly according to affordability, so that inadequate income does not become the cause for default.

(*c*) I must observe that the element of subsidy, particularly in the housing programme, has shrunk the available budgetary resources for undertaking massive programmes of housing. While it is absolutely convenient for the Administrator, not having to keep accounts of recovery of the money, it has set an absolutely wrong precedent by which people expect a lot of free money for their private purposes. Except that the housing activity in itself creates employment and market for the building material, subsidy completely wipes out the multiplier effect of the money channelised into the housing sector. Substantial programmes of public housing schemes have operated on this subsidy concept and people have become used to getting money free and do not appreciate any obligation to repay either the capital or the interest due on it. This has a very severe effect of decapitalisation of the financial assets of the lending government institutions.

(*d*) There is always a favourable bias in favour of lending to people having regular employment and particularly in the organized sector. In these cases it is quite often feasible to make deductions at source with due permission under the Payment of Wages Act. Most banks and other organizations resort to this procedure for all their lendings. The problem becomes difficult when it is concerning the informal sector.

(*e*) While affordability from the point of view of incomes is a real factor that has to be tackled in a different way. Quite often influences of non-economic factors like a propaganda that government funding is always welfare and not commercial and therefore has not to be repaid affects the psychology of persons against repayment. Sometimes this is resorted to for increasing popularity with the masses while the exchequer gets depleted. In the past, governments have been a welfare oriented agencies doling out grants to people. The grant syndrome is so much inbuilt in the minds of the people that they do not expect to repay. It is necessary that this attitude is changed.

(*f*) Even when revenue recovery action is taken, the people are so poor that they have nothing to offer for distraint except the house itself—which becomes a difficult decision to make when you are looking for 'housing' people.

SOME SOLUTIONS

To tackle the affordability criteria, particularly in the case of the economically weaker sections, it is necessary to integrate housing programmes with other income-generating programmes so that sustained incomes to the families are ensured from which repayments can be made regularly, without defaulters. This is possible by carrying out special component plans for each earmarked group of persons as there is such a plethora of poverty alleviation programmes for which the current year's budget has increased allocations and is an indicator of the trend for the long term. It is, of course, most essential that the income generating programmes have a favourable market bias for the services and the production to be sold. The appendix gives gist of case study of three villages on the housing scene.

It would be practical to get the recoveries in public housing schemes, particularly, when they are implemented on a massive scale, by decentralising the collection points. When borrowers have to travel long distances just to pay the instalment of the loan, it becomes uneconomic and costly for them to incur the expenditure on the travel and remit the instalment at the office of the implementing agency at the district

or regional office level. A window for their remittance nearer home and particularly at a place from where they get other services would provide them greater facility to make the monthly payment of instalments. In Kerala, we have tried enlisting the services of the primary cooperative banks, which are available in large numbers, if not at every village, at least at every third village. Invariably these primary banks have links with the people for various other credit requirements. Being both nearer home and at a place which they frequent for many other purposes, it is easier for them to make the periodic remittance and this also ensures the lending agency a more certain channel for the recovery. We have now introduced this as the general method for recovering loans lent to the large number of beneficiaries under the SASH programme.

In an earlier scheme of public housing through the cooperative banks, we found the linkage of remittance to be excellent where the District Banks remitted 100 per cent of the instalments even though their own collections have been slightly less.

It is our belief that with little more refinement of the chain of collection, the default can be brought to near zero. The new linkage thought of is to utilise the village level functionaries of the Revenue Department as the collectors of the instalments not in their role as revenue collectors but as the grossroot level administrator having contact with the masses. They have great powers of persuasion to collect the dues. The village level functionary would of course get an incentive in terms of cash as a percentage of the collection. Such a procedure has been tried even in the case of very bad debts subjected to revenue recovery action where agencies have undertaken the collection, patiently going through tortuous processes, but succeeding in the collection of the dues.

A practical approach to a greater success in the collection of instalments is to undertake collection of the instalments on a seasonal basis related to the seasonal nature of the occupation and income realising pattern of the individuals, so that collections are made in lump, when money is in the hands of the individuals. Agriculture, Fishing, etc.

are very seasonal operations and the income is not distributed equally over all months of the year.

Linking borrowers to the organization with which they have to deal occupationally, even for the repayment of their loans, by making an agreed deduction from the payments due to them from these organizations would be a very effective method of recovery. For example, collection of loans from the coir workers through the coir cooperatives of which they are members and from whom they purchase raw materials and sell the finished goods and so with members of fishermen cooperatives, handloom cooperatives, etc. It is, of course, necessary to ensure that the linkage between the members and these cooperative societies is regular and the volume of transactions adequate to deduct the quantum of money required for housing loan instalment. This would naturally bring us back to the nexus of incomes and savings and affordable limits of the loans. More and more emphasis has to be on incremental construction so that individuals add on to their buildings according to their savings or according to their improvement in affordability for further loans. People should be eligible to borrow more than once for the same house for its extensions, improvements (which is not the case now under many programmes) so that they do not become over indebted to any point of time. In fact, in the purely private sector of construction, that is what the individuals do.

A last suggestion would be stimulate savings linked loans like the HDFC. The attraction of this scheme is that while harnessing the savings of the pre-loan period of the individuals it reduces the burden of recovery of the post loan period.

CONCLUSION

The National Transportation, Planning and Research Centre recently carried out a study in Trivandrum Corporation area on certain transportation issues. The sample household income data that was generated from this study was represented in Table 1.

TABLE 1 SAMPLE HOUSEHOLD INCOME DATA

Category	*Income Groups*	*No. of Households*	*Percentage to total households in the survey*
EWS	Monthly income up to Rs. 700	9530	54
LIC	Monthly income between Rs. 701-1250	4131	23
MIG	Monthly income between Rs. 1251-3000	3330	19
HIG	Monthly income above Rs. 3000	805	4
	Total	17796	100

Taking these income levels, if housing finance has to be provided on sound lines, it is essential that socially relevant and economically feasible policies of design and technology are evolved, so that individuals do not get into debt traps, create problems for the organisations borrowing on their behalf. On the other hand, an incremental housing programme should take root to bridge the gap in an efficient way making housing a development activity of employment generating investment. Subsidies may soon have to be phased out to make people more self reliant and governments richer.

APPENDIX

According to a detailed survey of three villages in Kerala over a period of 3 years to study the impact of various developmental programmes, it was revealed that the housing sector benefited from government assistance as well as schemes of private organizations (including the Churches) and private initiative. Schemes to assist housing were applied by the government particularly to low-income households, scheduled caste and tribal populations or the fisheries corporation. Assistance was in the form of loans or outright subsidies. In three villages surveyed, one village reported that 28 scheduled caste households got Rs. 400 each for building construction in 1983. In another village (fishing village) Fisheries Corporation assisted more generously with financial assistance of Rs. 2,000 to Rs. 5,000 of which half was subsidy. In this village government had helped in the construction of 43 new houses in 1981-82 and repair of 400 other houses in 1983-84 in the wake of damage done by tidal waves. In the third village, that has tribal population, 51 houses were constructed for them during 1982. This survey also revealed that position of a house with tiled roof, as compared with leaf roofs, need not necessarily be associated with greater wealth. Even though traditionally roofs of leafs were preferred, the higher expense of renewing that thing every one or two years made tiled roofs more desirable and favoured. Improvement in the economic status would be reflected more sharply in the substitution of walls with leaf or mud by more solid material.

HDFC—Loan Recovery and Savings Mobilisation

*M. Sivaramakrishna**

Housing Development Finance Corporation (HDFC) is the premier private sector agency in the specialised field of housing finance in the country. To date, it is the only private sector agency with all India wide operations. Though its volume of investments in comparison to, say, that of the public sector Housing and Urban Development Corporation, is not very high, HDFC can still claim credit for many an operational innovation in the provision of housing finance. At the time of its establishment about eight years back, the private capital was very shy to enter the new and uncertain business of housing finance. In evolving work procedures guidance available from the HUDCO was not very appropriate as that agency concentrated its attention more on financing social housing under public auspices to meet the needs of the low income and economically weaker sections. HUDCO has been endowed with cheap sources of funds, *i.e.*, government loans and the government guaranteed bonds. But in the case of HDFC, the charter sanctioned required it to raise the finances largely from the open market on commercial terms. The pioneering efforts of the HDFC, now one could say, has set the pace for the establishment of other private sector housing finance agencies. During the past couple of years quite a few have, in fact, mushroomed. But if the trend was to pick up momentum, a great deal of encouragement has to come from the government in the form

*Branch Manager, Housing Development Finance Corporation, Hyderabad.

of fiscal incentives and other reform efforts. At the same time care also needs to be taken, by instituting appropriate checks and safeguards, against the exploitation of the facilities by the 'fly by night' operators. The Seventh Five Year Plan document envisages that the above tasks would be part of the functional responsibility of the proposed National Housing Bank. In evolving the administrative arrangements in above regard, the past experiences of the HDFC may be made use of. It is towards this end, an attempt is made in the present note to give a brief account of the HDFC's experience in the matters of loan recovery and savings mobilisation.

Loan Recovery

An organised housing finance system mobilises the savings of a common saver and lends it to a needy borrower to acquire a house. It can operate, only if people can afford to buy the houses and that there are socially oriented financial institutions with a development outlook to help them fill the gap between their savings and the cost of the house. The amount thus provided should be such that it could be repaid during the borrower's potential earning period. In India, the cost of a reasonably adequate accommodation for a family may well be over 50 times that family's normal monthly income. In the metropolitan areas the ratio may be higher. It could be even 100 times the family's monthly income. Land prices and the costs of the building materials like steel and cement all add up to the prices of the houses. For a common man, the price of house thus, determined in the market is generally beyond his affordable limits. It is understood that in the developed countries the cost of an average size home is approximately 30 times the monthly income of the house buyer. Thus a good accommodation could easily be acquired by most families. A housing finance institution's ability to help new customers in the purchase of houses largely determined by the pace at which it could rotate its funds, *i.e.*, the time span and ease at which it could effect the recoveries of its past loans. It has its responsibility to the common saver from whom it has mobilised the funds. Lesser is the cost of recovery, healthier is the Institution.

Housing Development Finance Corporation is currently having a very satisfactory record of around 98 per cent of recovery of its loans. This has been achieved by following very meticulous loan appraisal procedures.

HDFC has opted for the loan recovery through equated monthly instalments (EMI). Applications for housing loan are appraised taking into account factors, such as, maintainable gross family income, savings, family commitments, other loans carrying fixed repayment obligations, nature and consistency of the said maintainable income, clients' own funds available with him for acquiring the house to be financed, etc. Next comes the determination of the affordable EMI which an individual may be able to pay to the institution without strain or default. The period of repayments is determined with reference to the future active period of service of the borrower. In the case of salaried employees, normally the period is fixed with reference to his age of retirement. In the case of self-employed persons, the period is fixed at 65 years. Relaxations are submitted only in exceptional cases up to the age of 65 also if there is a reasonable prospect of the increasing income beyond the age of retirement. The period for repayment of loan is usually up to 15 years. But in some deserving cases, it may be extended up to 20 years. After the assessment of these parameters, the total amount of loan assistance permissible is arrived at. Thus, a borrower is extended only that amount of loan, in repaying the instalments of which, does not cause much strain on his income.

Built into the affordability of the EMI, is also the rate of interest chargeable. Here it may be recognised that the prevailing interest rates in the open market on long term loans are very high. An individual housebuilder cannot afford them. Most of the public and private sector corporations offer 14 to 15 per cent on term deposits with them. Even the commercial banks pay 11 per cent on five year deposits. The interest rates on the HDFC lendings have, therefore, been fixed to range from 12.5 per cent on loans up to Rs. 20,000; 13.5 per cent on loans up to Rs. 50,000 and 14 per cent on loans up to Rs. 1,00,000, and where maximum loan granted is Rs. 1.5 lakh, interest is charged 14.5 per cent. Thus HDFC ensures that the borrowers are enabled to borrow

at rates lower than the market rates. This contributes to a large extent in the borrowers repaying the loans regularly on time. Considerable economic thinking thus has gone into the HDFC fixing the rates of interest, keeping its spread to the minimum and at the same time, helping the common man with housing finance in a market where long term savings fetch as high a rate of interest as 15 per cent on three year deposits.

As a financial institution, holding the savings of the common man on trust and lending it to needy borrowers, HDFC is obliged to take appropriate security for the property. Therefore, an equatable mortgage of the property financed is taken as the security. For interim disbursements, personal guarantees (surities) are taken. In some cases, collateral securities in the form of assignment of LIC Policies are also taken. The average Indian has a strong sentimental attachment to house property and does not want to fail in his obligations, particularly, in respect of housing loans. Where, however, there has been some wilful default, they are very small in number. Usually social pressure is brought forth on the borrower through guarantors. Where the default is in the nature of postponement of payment of the EMI on account of some genuine difficulties, such cases are handled sympathetically. The HDFC acts as a counsellor and the EMIs are rescheduled without resort to any coercive measures. This approach has improved the confidence of the clients in the institution and has evoked positive response. Another effective way of ensuring recoveries is to have an arrangement with the borrower's employer, with the borrower's consent, for deduction of instalments (EMIs) from the salary. HDFC has over 200 organisations responding to this arrangement. This process has also ensured considerable savings in the cost of recovery. There are instances of a single employer deducting instalments of over 500 of the HDFC's borrowers. The most important factor in recoveries is timely and persistent follow-up, be it through letters, phone calls, telegrams, personal calls, resort through guarantors, etc. HDFC has been able to persuade several employers to guarantee group loans to their employees, by offering slightly liberal terms on the loans. The employers benefit from improved labour relations have also been able to retain senior professionals from leaving their employment.

In this process, the recoveries are prompt. Here, due care is taken to assess the financial stability of the employer, along with that of the actual borrowers. Despite the satisfactory performance of the HDFC in the field of recoveries, it is suggested that the government could strengthen the hands of the housing finance institutions through the following reforms:

1. Amend the Payment of Wages Act (a Central Act), to include in the list of permissible deductions, the housing loans from the approved financial institutions. The States of Karnataka and Gujarat have permitted deductions of HDFC's instalments from the salary of their HDFC borrower employees. This may be extended in other states also.
2. The overdue arrears of approved financial institutions like HDFC may also be permitted to be recovered as arrears of land revenue under the provisions of the state Revenue Recovery Acts.
3. The present delays and inherent costs of civil cases for the recovery of dues are high Most housing loans are small loans. HDFC's average loan is below Rs. 50,000. It is uneconomical and cumbersome to seek justice through the present, overburdened judicial system. The concept of some simplified special judicial machinery would lighten the burden of the institutions in the task of recovery.

Savings Mobilisation

Countries like UK and USA have a well organised housing finance system mobilising the savings of the common man for lending to the housing sector. The deposits of the building societies and the savings and loan associations of UK and USA are nearly equal to the resources mobilised by the commercial banking system of those countries. These have largely been made possible by a judicious provision of fiscal and monetary relief by the government to these institutions, Germany which was devastated by two world wars devised its own home savings plan known as "BAUSPARKASEEN' which has played a significant part in rebuilding the davastated'

cities of that country. The basic feature of this savings plan is that people contract to save a certain sum after which they are entitled to receive a housing loan, the amount of which is related to the sum saved. Both the savings and the loan attract an interest below the market rate. It is the saving of potential home buyers which is used to provide loan to purchasing a house. It has succeeded in West Germany mainly because:

(*i*) There is an adequate supply of private rented accommodation which most households are content to occupy till they are in their 30s. This gives them an opportunity to contract saving.

(*ii*) The government has provided generous bonuses to those saving under a contractual schemes.*

In its endeavour to bring down the rate of interest to the borrower, HDFC has made a beginning in this direction. Briefly the scheme termed "Home Savings Plan" (HSP) offers a saving rate of 6 per cent and lands at $8\frac{1}{2}$ per cent. The saving period is 2-7 years. The maximum borrowing period is 12 years. The loan will be 1.5 times the savings. The contract value (savings + loan) is restricted to Rs. one lakh. Public response is encouraging. It is hoped that in the coming years the government would consider extending the requisite support to the contract saving schemes and popularise this mode of channelising public savings into housing, through approved financial institutions. Some of the fiscal reliefs that could help the mobilisation of savings by the housing institutions through schemes such as above, are listed below.

(*i*) Extension of the scope of the section 54 (E) of the Income Tax Act to cover the activities of the housing finance institutions that are already approved under section 36 (1) VII of the same Act, so that fiscal reliefs in respect of the investment of net gains from

*The value of these bonuses has been reduced in recent years and as a result there has been a decline in the rate of growth of the contract savings.

the sale of long term capital in the national development activities' could as well get attracted to the bonds, deposits floated by the housing finance institutions.

(*ii*) Extension of the tax concessions under the section 80 cc and 80 LL for the investment made in the bonds and deposits of the housing finanace institutions.

(*iii*) Extension of the facility of non-deduction of tax at source on the interest payable on the deposits with the housing finance institutions, as is the case with the deposits with commercial Banks.

(*iv*) Exclusion of the notional income from the self occupied properties for the assessment of the taxable income.

(*v*) Raising the exemption limits under section 32 (1) (iv) of the Income Tax Act to say Rs. 18,000, *i.e.*, the level at which the incomes are now exempt from the income tax liability, to encourage employer housing for the workers in the organised sector.

As the Government of India, the various state governments and the Reserve Bank of India are earnestly interested in the development of housing and improving the housing finance system in the country, it is hoped that the above suggestions which are moderate in extent and content, would be acceptable to the authorities.

Financing Social Housing: A Review

*C.S. Rao**

It is not uncommon to come across instances in the literature, where 'house' is interpreted in a narrow connotation of 'structure' and the discussion on housing finance conducted accordingly. A house is not just shelter. Its value is more from the access it provides to the various infrastruture services such as water supply, sanitation electricity, transportation to work schooling. The latter are necessary and adjunct facilities to any housing settlement. Thus for deriving optimum returns from the investments on housing it is imperative that an integrated approach is adopted in respect of house constructions and the facilities augmentation so that in the planning and development of the same both horizontal and temporal consistencies are maintained. A major instrument to achieve this is of course, the financing framework. Taking this broader concern of housing finance as the premise, present paper attempts a critical examination of the financing arrangements in respect of the social housing schemes in the country, particularly those aimed at ameliorating the housing of urban poor.

As one looks back at the development of social housing under successive Five Year Plans, it could be noticed that the policies with regard to their clients orientation as well as towards the financing have undergone significant change. In the earlier plans, the emphasis was on covering some specified occupational groups such as industrial workers, plantation workers and provide them fully constructed dwelling units. But over the years, income levels have come to be adopted as the basis for the coverage and in the matter of financing, emphasis has shifted from construction of full

*Deputy Secretary, Ministry of Urban Development, Government of India.

dwelling units under the public auspices to facilitating the house constructions by the clients themselves. A rough idea of the shifts could be had from the fact that the plan allocations for the housing sector had come down from about 20·25 per cent in the total public sector plan investment in the first two five year plans to about 1.5 per cent during the Sixth Five Year Plan. In the Seventh Five Year Plan the above percentage share has marginally gone up to two per cent. The major plank of the strategy is to confine the public involvement largely to the land and infrastructural development and achieve as large a spread as possible in that regard from the plan funds that could be allotted to the public housing agencies. The assumption is that the above alongwith new institutional arrangements for mobilising household savings would induce people to effect larger volume of savings for the house constructions purposes. The point for examination, therefore, is whether the above assumption is close to the reality. What are the irritants in the realisation of the objective? What is the extent of success in the operationalisation? How best the irritants, if any, could be overcome in above connection? An attempt is made to examine the above issues in the context of the operation of two major social housing schemes for the poor, *viz.*, the Environmental Improvement Scheme and the Sites and Services Scheme.

Environmental Improvement in Slums Scheme

The Environmental Improvement in Slums is a Central Government sponsored scheme in operation since April 1972. In a prior programme, namely, the Scheme of Slum Clearance the emphasis was on the removal of slums and squatter settlements and rehabilitating the families affected in the newly constructed tenements. These operations however have been found to be highly time consuming and requiring huge capital investments.

The Environmental Improvement Scheme has, therefore, been introduced under public auspices as a low cost solution to ameliorate the conditions of the slum and squatter settlement dwellers. Under this Scheme the slum environment is sought to be upgraded through the provision of basic civic amenities *in situ*. The norms fixed in respect of various

facilities are: water supply: one common tap for 150 persons. Sanitation: one latrine seat for 150 persons. Community bath: one bath room for 20-25 persons. Street lighting: one electric light pole for every 30 meters length. Drainage: open drains to ensure free flow of sullage and storm water. Widening of the paths to allow easy traffic flow of hand carts, bicycles, etc.

Entire expenditure on the provision of above amenities is borne by the Central Government through a special grant. However, a per capita cost celling is fixed at Rs. 300. It is reported that as on March 1983, a total of 6.8 million slum population were benefited under the Scheme.

In spite of good coverage the Scheme has come into sharp criticism on the following grounds:

1. The norms and per capita cost ceilings have no relation to the actual needs in the slums.
2. The selection of the slums for effecting improvements is arbitrary.
3. The reported number of beneficiaries is arrived by dividing the total expenditure by the per capita norm. There is no separate check by an independent organisation about the number actually benefited.
4. There is no participation of the clients in the Scheme. Therefore, the 'Improvements' in a sense are 'thrust' on the people rather than 'evolved' by them through participation.
5. There is no provision under the Scheme for land tenure for the slum families covered so that they have a sustained interest in proper maintenance of the new facilities and thus ensure that their environment does not degenerate once again.

Sites and Services Scheme

The Sites and Services Scheme envisages development of house sites for the economically weaker sections in the urban areas and provision of easy loans to the clients for the purchase of those sites. To keep down the costs within the affordable limits, the plot sizes and the facilities provided there are somewhat on reduced norms. The income eligibility

limit and the ceiling on the loan during the Sixth Plan period were fixed respectively at Rs. 350 p.m. and Rs. 3,000. But during the Seventh Plan the above are raised to Rs. 700 p.m. and Rs. 5,000 respectively. The basic assumption of the Scheme is that once a house plot with core amenities is made available, the allottee would be gradually completing the construction of the house structure in stages with his own labour and whatever funds he could raise.

As in the case of other social housing schemes, in respect of Sites and Services Scheme also, the HUDCO has been designated as the national level nodal agency for routing the central allocations. The HUDCO has in turn put the stipulation that all the composite housing schemes that it finances, one-third of the loan provided has to be spent by the receipty (state) housing agency on construction of houses for economically weaker sections (EWS). It could be either in the form of sites and services or complete dwelling units. In case the latter option is preferred, then it is further stipulated that the total costs of the EWS houses including the expenditure on land development should not exceed Rs. 8,000.

From the available reports about the working of the Scheme, one could notice that the progress has been very tardy. As on March 1983, only 16.21 lakh house sites could be developed and provided under this Scheme and this number constituted just 39 per cent of the target set for the Sixth Five Year Plan period. The slow progress is attributed to a number of factors. They include the delay in land acquisition by the State Revenue Departments under the provisions of the Land Acquisition Act; difficulties in determining the eligible applicants as most of the urban poor earn their livelihood from the informal sector vocation with highly erratic income flows; unrealistic cost ceiling which often lead state housing agencies to go in for cheap land at far off locations. But because of the poor public transportation facilities, the experience in most cases is that the allotees, under the sites and services scheme refuse to shift to the new locations. They even disposed them to the higher income groups. As a case in point we may cite the experience under the Delhi's massive resettlement scheme of 1975-76. Under this scheme a total of 0.15 million slum and squatter household

were removed from different locations in the city proper and rehabilitated in 27 resettlement colonies in the pheripheral areas. A study by IIPA has observed that as a result of the resettlement the transportation expenditures of many families have gone up on average from Rs. nine to Rs. 32 per month. Under the circumstance, it is no surprise that many a plot has changed hand rapidly. The benefits of the scheme thus did not actually reach the EWS groups in intended manner.

Now returning to the issues raised in respect of the strategy adopted for the development of social housing and its financing, it could be broadly stated from the foregoing brief accounts of the two major housing schemes for the poor, that the achievements so far are not very satisfactory. In the first instance, even in the limited role chalked out for the public intervention in the housing development, *i.e.*, confining only to the land and infrastructural development, in many cases the accomplishments at many places are reported to have fallen far short of the modest targets, leave alone meeting the actual demands. Secondly, from the investments actually made, the clients could not receive all the intended benefits. Regarding the shortfall in the coverage a major contributing factor could be inadequate financial allocations, but regarding the second, the reason is mainly inadequate project design and inefficient management in implementation. If the things were to improve the future reforms have to be directed particularly to remove the present irritants in inducing the people to save more and invest them in the house constructions. Hope in the matter seem to lie largely in the successful implementation of three Seventh Five Year Plan proposals, *viz.*, (1) Establishment of a National Housing Bank. (2) Establishment of Urban Infrastructure Development Corporation. (3) Urban Basic Services Programme. The first is the subject matter of many other papers discussed in the present seminar, so in the following the salient features of the rest two proposals are only mentioned.

Urban Infrastructure Development Corporations

The augmentation of infrastructural facilities in connection with the construction of housing settlements comprises of two parts, *viz.*, the on site or layout improvement and the

peripheral improvement. Conventionally, the latter are not treated as part of the housing development effort and accordingly, the concern of the housing finance system is not extended to cover the funds mobilisation and management for that purpose. Under the HUDCO funding also the financing of infrastructural improvements is more or less left out of the purview. But it is well known that if there is any slack in the peripheral developments or they are not in consonance with the on site improvements, then the benefits from the total investments fall far short of the desired levels. The peripheral infrastructural developments are at present mainly financed through plan allocations. Plan allocations to the state are made en bloc and since housing and urban developments enjoy very low priority in the state plans the funds allotted are not only very small and at times provided in ad hoc manner. While this is the position about the plan allocations, the formulation of projects, and the management of funds generally is found wanting in many respects. To overcome the deficiencies, in above regard the establishment of a specialist financing institution is suggested to help to channel long term finances and also regularly monitor their utilisation. Accordingly, the Seventh Five Year Plan has proposed the setting of a separate sectoral development finance institutions under the style of Urban Infrastructure Development Corporation. It has to have a seed capital of Rs. 55 crore, Rs. 30 crore towards meeting the financing requirements of the water supply and sewerage sector and Rs. 25 crore towards meeting the financing requirements of the general urban development projects. Details about its organisational framework, criteria for projects selection and loans provisions, etc., are yet to be worked out. But a tangible advantages that one could visualise from the new institution is an objective formulation of the projects at the field level, and proper prioritisation for funding, and continuous monitoring of the progress in the matter of funds utilisation and costs recovery. When the efficiency in funds utilisation and cost recovery is achieved, then one could reasonably expect more and more funds to get attracted for investments in the urban infrastructure facilities.

Urban Basic Services Programme

It may be recalled that one of the identified deficiencies both under the EIS and the Sites and Services Scheme is that clients are not well equipped to avail full benefits of the services provided. In this connection need is felt to educate the prospective clients and prepare them to the community common action. Studies in the past have clearly shown that whenever there is the active involvement of the clients in the design and implementation of the development scheme, it not only lead to substantial reductions in capital costs but also in ensuring efficient operation and maintenance of the newly created facilities. Once a commitment of the beneficiary is accomplished, then cost recoveries posed no serious problems. Keeping this general finding in view, the Seventh Plan proposed the revival of the Urban Community Development Scheme of the earlier plans in a slightly modified form.

The new scheme is evolved by integrating three programmes, *viz.*,Urban Community Development, UNICEF aided Small Towns Development and Low Cost Sanitation. The Scheme's emphasis is on social inputs to go side by side with physical improvements, *i.e.*, construction of houses and other infrastructural facilities. The social inputs include, primary health and nutrition extension, hygiene and civic responsibility, education, pre-and primary school facilities, and vocational training for the womenfolk. No separate financial allocations are envisaged, the funds required are to be drawn from the allocations already made for the development of the above mentioned services in the areas concerned. It is hoped that the provision of social inputs would help to organise the client communities to collective common action in respect of housing and other improvement schemes in their regard. The scheme is put into operation in a selected districts on a pilot basis. UNICEF is extending its cooperation through provision of medical and audiovisual equipment, training of community workers, etc. From the experience gained from these pilot projects, it is proposed to extend the Scheme to other areas in due course.

CONCLUSION

In the conclusion it may be reiterated that the development of land and infrastructural facilities need to be undertaken on very large scale if an appreciable dent is to be made in solving the 'shelter' needs of the urban poor. In this connection mobilisation of finances is vital. But it is not the only constraint. There are problems on other fronts as such as in speeding up the land acquisition processes, if necessary, through statutory amendments, giving encouragement to the industries supplying building materials, training of skilled manpower, etc. All this would flow when there is a firm political commitment for the amlioration of the housing position of the urban poor. The urgency in the matter is aptly summarized by Mr. McNamara, the ex-President of the World Bank, when he observed that "if the cities do not deal constructively with the problems of the urban poor, they will deal destructively with the cities".

Mass Effort by Private Sector in Housing

*C.S. Chandrasekhara**

The crux of the question of housing finance is that of capital mobilisation for house building purposes. Such capital has been made available in the past by both, private and public sectors. However, the pressure of demand for houses specially from the weaker sections of the community lead to the progressively increasing intervention by the government in the field of housing. With the government entering into the area of social housing, private sector has chosen gradually to confine itself to upper middle income, high income and luxury housing. Such a withdrawal from the area of social housing by the private sector was further enhanced by two factors, namely, the increasing control of the state over urban land resources and the rent control legislation. The latter specially made venture into social housing by private sector not only unattractive, but positively forbidding.

The government intervention in the area of social housing has been in terms of providing capital and secondly, facilitating assembly and development of land for housing while government intervention in the area of urban land has not been an unmixed blessing and neither can it be called all through successful. Present examination will confine itself to the provision of capital for house building purposes. Traditionally, capital for housing specially social housing has come from budget appropriations, fund accumulations from insurance corporations including LIC, Provident Fund collections, individual savings, and lastly the lending institutions. Of the above, the role of the lending institutions for providing

*Chief Planner (Retd.), TCPO, Government of India.

capital for housing construction has been circumscribed by the general financial policy of the government which has ascribed higher priorities to investment in agriculture, industrial development, transport, power, etc., and accorded very low priority to housing. In fact, housing is clubbed with social welfare which gets only residual plan allocations. Therefore, it is generally accepted that the succussive national and state plans have not touched even a fraction of the total housing requirements and public investments have made only a marginal contribution to resolve the problem of housing the poor. What is interesting and at the same time revealing is that the bulk of the housing for all income groups including the poor is supplied by the private sector both in an organised way as well as through unauthorised house construction, and encroachments by squatters on public land. The large capital that has flowed into this housing effort has not been taken into our accounting system of capital formation at all.

Thus, it is clear that the capital availability for housing can be very substantially enhanced by an organised effort to mobilise capital from the private sector substantial part of which today goes into high income and speculative housing development as well as luxury constructions of cinemas, hotels, office buildings, etc., where apparently there are large profits to be made. The capital that is available in the private sector includes, not only what is saved in normal transactions but also the unaccounted monies that accumulate and which are not available to investment in normal public transactions. This is specially the case in regard to the substantial savings from the agricultural sector, specially the rich farmers, which finds itself an outlet in the urban centres being invested in urban land, commercial buildings and other similar ventures. It is reasonable to assume that a substantial part of the capital normally formed as well as the capital formed in the non-traditional ventures could be attracted towards housing construction in the country, provided an environment is created in which the investor is assured of fair returns on his security of investment to and the flexibility in such investments to permit innovations, cost reductions, use of improved technologies, etc. To create such an

environment, it is necessary to dispel some of the pet notions that have crept into the housing development field.

Firstly, the notion that the public sector can meet the needs of housing in more economical, cost effective and efficient manner can no longer be taken for granted. Experience of the working of the public sector enterprises during the last two decades which have taken a heavy toll of the Nation's capital resources should clearly dispel any such notions. Efficiency and cost effectiveness is not the prerogative of the public sector; private sector has also shown that provided the right atmosphere is there, it can rise to the occasion. Secondly, the notion that have plagued our socialistic thinking in respect of our plan programmes, that we shall dispense with the middle man and that there will be direct benefit to the farmer, and the rural and urban poor by plan investments has been disproved; the middle man has only been substituted and not eliminated; the leakages have enormously increased and thirdly, the programmes have fared badly because of the failure to provide adequate backup programmes alongside the main programmes. It is a hard fact of life that the middle man can and does make a contribution to national effort provided they are not allowed to exploit the gullibility of the beneficiary on one side and credulity of the government on the other.

The third notion that the private sector cannot provide housing for the urban and rural poor is equally to be disbelieved because it is, by and large, the private sector that is providing in non-traditional way the kind of shelters to the enormous number of urban poor in the metropolitan cities, albeit, these are mostly unauthorised and also are of very low standard. Yet, the fact is that, it is a shelter and it does shelter millions of people. If one looks back historically, the *chawls*, the *ahatas*, and the hutments were always provided by the private sector and fairly well managed. It is necessary, therefore, to get over the feeling that it is only the public sector that can come to the succour of poor and the weaker sections.

A fourth notion that has unfortunately plagued our housing programme is that of the tenure of house. The design of most urban shelter projects shows that only ownership housing is worthy of consideration and large scale investment.

Because of this notion, rental housing has become a neglected child in the programmes for low income housing. Conventional site and services and slum upgrading projects with their accompanying programmes are intended primarily to make homeowners of low income families and to improve the living environments of those who already own their houses. Sometimes such improvement programmes are preceded by action to confirm tenures. It is not realised that low income families opt for home ownership not because of any sense of belonging or security, but mainly because the ownership gives them an opportunity, to enhance their income by subletting, or even wholly letting at great inconvenience to themselves. In the last case of such ownership being aquired, it is normally the case that the allottees sell their holding surreptiously using that money to meet their economic needs and then become applicants for new allotments. Thus, the policy of building for ownership specially for the low income and weaker sections is leading to gross misuse and abuse of the benefits provided to them. A recent survey of M* schemes at Poona has indicated that it is the very low income and weaker sections who are after ownership schemes with the sole purpose of earning an income out of it either by renting or by other means.

A World Bank sponsored study has brought out that renting is the predominant form af housing in most cities in developing countries, specially in metropolitan cities, and the natural tendency would be for renting to remain predominant even as demand for housing increases and the number of households grows. The study also has come to the conclusion that the present housing policies in developing countries has pushed disproportionally in the direction of owner occupied housing while ignoring or even blocking the expansion of rental market. Of course, rent control acts as well as the poor management capability of the state housing organisations to manage rental housing and collection of rents has been a good excuse to turn away from rental housing.

Rent control may protect rentors already occupying rental units but often that benefit is at the expense of other poor people trying to find a house for renting. In effect, the disparity

caused by rent control act are exacerabated by the creation of illegal parallel market in high rent, non-controlled housing. The realities of rental housing in the Third World is summarised thus:

"Owners and renters are clearly drawn from a similarly impoverished population but are at different stages of their family and career cycle. The tenants live mainly in small houses with one or two other families. Rental accommodation in the low income settlements is organised on a small scale basis. Most landlords are themselves poor and are renting one or two rooms in their house to supplement their own limited incomes. Renting seems an essential part of the home consolidation process; without tenants, ownership would be more difficult for the landlords. Renting does not seem to be particularly exploitative business. There is no evidence to support the idea that renting is big business; nor does it seem that tenants are regularly driven from their homes by grasping landlords. Rather, there is a symbiotic relationship between poor families."

Another notion that has been an integral part of our housing policy has been to build economic housing under compulsions of reducing costs to meet the needs of the lower income groups. Specifications are lowered; areas are reduced; inferior constructions are adopted and the resulting shelter is totally substandard. The fallacy of this notion is apparent in that the construction of these substandard shelters have lead to creation on a large scale of slums over the last several years, all in the name of providing housing for the poor. These slums have undergone further overcrowding and unauthorised expansions and the hope of rebuilding them is practically nil. In fact, the slums of the last decade are as permanent as houses and they are today generators of economic and social unrest and disorders. It is overlooked that substandard housing can only be transitional housing and its technology is totally different to that of permanent housing. The Hong Kong and Singapore experience clearly demonstrates this and all housing conceived as permanent housing has to be built as standard housing, but for a time it can be used in a substandard way, such as allowing more families to live, sharing of services, overcrowding, etc.

and thus bringing housing to affordability levels but as soon as affordability goes up, the substandard use gets automatically eliminated, leaving no deficiency in its wake.

The giving up of the above notions and the evaluation of a more rational approach to housing will enable us to create an environment in which private capital can be attracted in a massive way for housing programmes. It is necessary to recognise that for private capital to move in commensurate returns on the investments have to be assured as well as security of such investments. It is in this context, that banks, whether it is National Housing Bank or the normal scheduled banks, can play a very big role in channelising private capital towards housing effort.

So far the approach to housing has not been to meet the housing demand ascertained through proper market surveys but only to meet crisis situations in a few locations and in a very diluted manner, which naturally cannot make any dent either in the housing shortage or in housing situations. In the year of shelter, it is necessary that the housing effort is geared towards the total demand and that this demand is ascertained through proper market surveys and such market surveys to be widely publicised to indicate what type of houses, whether for ownership or for rental are needed to be built and to what extent whether by down payment or by instalments, are the people who need the houses are in a position to pay for the houses. Such market surveys will enable the private sector to build for demand at suitable locations and places and to meet the needs of the people specifically. It will enable development authorities to make developed land available at those locations at reasonable prices or at least facilitate the assembly and development of the required land.

Lastly, the question of subsidy should not enter the picture of house construction programmes and housing markets surveys and the determination of demands. Subsidy for housing is a social security measure and it cannot be directed towards the house, but should be directed towards the occupant of the house, and be determined by the assessment of the individual's or families' affordability level, current earnings and future improvement thereon. It is important to underscore that it is not the house that is being subsidised but it is

the occupant and the responsibility of the government is towards the occupant and not to the house. By subsidising the house, as it is being done today, we are totally going off the mark and if our efforts do not succeed, or get misdirected then it is our own inadequate understanding of social responsibility and obligations. Once the realities are recognised, our housing programmes should be able to get off the ground in a much better manner and to more effective realisation of our goals concerning shelter.

Institutional Intermediation for Channelising Private Savings for House Constructions

*I. Chaudhuri**

In developing countries, where the pace of urbanisation has been mind boggling, governments have to play a catalytic role in encouraging and promoting the development of housing finance institutional intermediaries within the overall financial and economic structure. In India, economic development, rapid urbanisation and raising of levels of income, all make it both necessary and possible to have an effective housing finance system by enhancing and expanding the role of institutional intermediation and incentives in the housing sector.

The housing finance system on one hand has to provide long term credit to prospective house owners, while on the other it has to attract, encourage and channelise the flow of private savings to its fold, from those who are potential house owners as also from those who are not necessarily potential house buyers, such as, elderly people who hold savings, by giving reasonable return on deposits. In order to own a house, the prospective house owner becomes a substantial net borrower, as housing is a capital asset, and often the single largest investment made by an individual in his life time. At the same time he becomes a substantial net investor in the country's housing stock. The housing finance intermediaries have to constitute an inter-face between the

*Joint Secretary, Ministry of Urban Development, Government of India.

housing market and the capital markets, both domestic and international.

The Seventh Five Year Plan document clearly indicates the policy and commitment to encourage self-help housing through the setting up of a specialised finance institution in the form of a National Housing Bank (NHB) on the lines of NABARD (National Bank for Agriculture and Rural Development). It has to ensure long term credit flow to individuals for home-ownership through a network of institutional intermediaries. It would also concentrate on channelising of institutional finance and mobilisation of household savings. The Plan provides for a seed capital of Rs. 50 crore for NHB with equity capital from some of the financial institutions. The creation of this institutional framework would no doubt strengthen the confidence of the depositors in such specific housing finance intermediaries whose task would on the one hand to attract and channelise private and institutional savings while at the same time make long term credit available at affordable rates to individuals for house acquisition through a chain of viable and self supporting financing agencies.

The Plan document envisages a major housing effort less through public construction, except for the economically weaker sections. It emphasises the need to promote private housing activity through supply of physical and financial infrastructure. In this strategy the government has to play an active role in developing the delivery system through a housing finance market. In the proposed housing finance system, it is foreseen that the vast majority of the house seeking individuals and families would have to be looked after through creation of local level housing finance societies.

EXISTING HOUSING FINANCE SYSTEM

It is unfortunate that a viable and self reliant housing finance system in India is still to be developed. Over 90 per cent of the housing finance needs are today met through informal arrangements in diverse parts of the country. The structure of the formal housing finance market is as shown in Fig. 1.

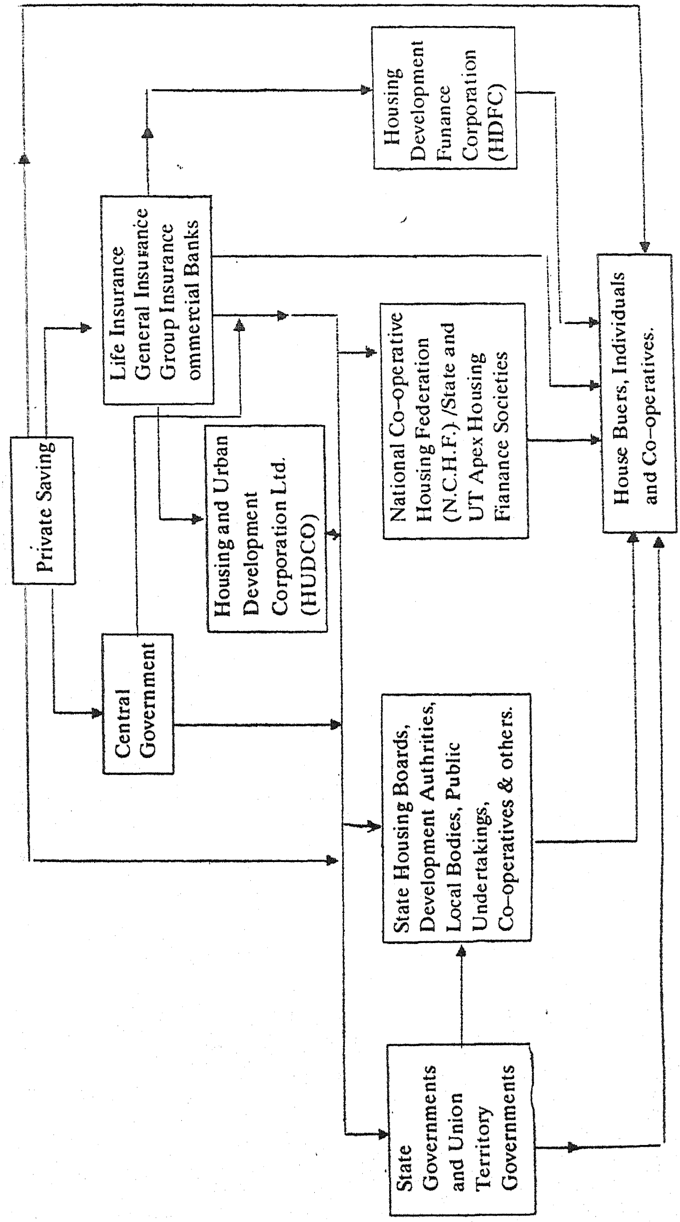

FIG.-1 EXISTING FORMAL HOUSING FINANCE MARKET IN INDIA

A large amount of resources are being diverted and invested in non-productive sectors which could, if the right services are made available through housing finance intermediaries to potential depositors, be channelised resources into the housing sector. The housing finance institutions must, therefore, specialise at providing adequate returns to depositors, while also offering long term credit on attractive and easy terms for house building, which is not always possible through the normal commercial banking channels.

A noticeable phenomenon in the country has been the steady increase in investments by average middle class depositor in institutions other than commercial banks through purchase of debentures and shares of companies which provide higher returns even though it contains a 'risk' element.

There is, therefore, adequate potential for development of a self reliant housing finance system which should enjoy a degree of credibility by way of commanding confidence in the investors of their savings, by providing attractive terms while enabling potential house owners to obtain access to long-term credit facilities to fulfil one of their basic needs, home ownership.

In fact, the housing stock so developed would also help to generate profits through capital appreciation, and rental income for a part or the entire house which can reasonably be channelised back into such specialised financial institutions. This would increase home ownership and reduce the sizable percentage of households living in rented accommodations, particularly in urban areas against the background of increasing urbanisation in India (see Tables 1 and 2).

INSTITUTIONAL INVESTMENTS IN HOUSING

Much of the institutional funding for housing today is intra-institutional transfer of funds and data available. Thus, it is difficult to have a clear picture. The institutional finance is the mainstay for housing in the formal sector, only a part of it reaches the informal sector through operations of HUDCO and the cooperative societies. The highlights of the major institutions playing active role in this field are discussed here.

TABLE 1 PERCENTAGE DISTRIBUTION OF HOUSEHOLDS BY THEIR TENURE STATUS

Census		*Tenure status*		
		Owned	*Rented*	*Total*
1961	Total	85.2	14.8	100.00
	Rural	93.6	6.4	100.00
	Urban	46.2	53.8	100.00
1971	Total	84.6	15.4	100.00
	Rural	93.8	6.2	100.00
	Urban	47.1	52.9	100.00

SOURCE : (*i*) *Census of India 1961 and 1971*, Part IV-B, Housing Tables.
(*ii*) National Building Organisation.

TABLE 2 PROPORTION OF TOTAL HOUSEHOLDS STAYING IN OWNED HOUSES FOR MILLION PLUS CITIES

Sl. No.	*City*	*Years (census)*	
		1961	*1971*
1.	Ahmedabad	17.62	23.67
2.	Bangalore	29.96	25.84
3.	Bombay	10.00	14.85
4.	Calcutta	17.29	18.63
5.	Delhi (M.C.)	33.52	16.67
6.	Hyderabad	32.99	21.69
7.	Kanpur	12.87	8.67
8.	Madras	26.06	26.77

SOURCE : *Handbook of Housing Statistics*, New Delhi, NBO, 1980.

Housing and Urban Development Corporation (HUDCO)

HUDCO is the public sector body operating at national level and finances housing projects undertaken by the state housing agencies, to enable them to construct housing

TABLE 3 ROLE OF HUDCO IN FINANCING HOUSING

Particulars	*Period*					*Cumulative total since inception*
	1980-81	*1981-82*	*1982-83*	*1983-84*	*1984-85*	
Gross Loan approvals (Rs. in crore)	161.68	193.62	221.33	283.93	352.88	1959.85
Loan disbursements (Rs. in crore)	89.97	105.24	131.78	149.11	199.82	1167.74
Number of units	268363	276948	284879	316349	318837	2231413
Average Loan per unit (Rs.)	6024	6991	7769	8975	11067	
Loan repayment/ recoveries (Rs. in crore)	36.37	45.04	61.83	81.96	82.85	501.52

SOURCE : *HUDCO's Information Sheets.*

units and offer them on hire-purchase basis at affordable terms to intending buyers. HUDCO also provides financial assistance to cooperative housing societies, private and public sector bodies for undertaking construction of staff housing. HUDCO's lending terms are based on affordability criteria guided by family incomes and it accordingly adopted differential pattern of financing.

HUDCO has financed 4122 schemes up to January 31, 1986, with a project cost of about Rs. 3014 crore and loan commitment of about Rs. 1960 crore for construction of over two million dwellings. The loan approval in the past five years has more than doubled—from Rs. 161.68 crore in 1980-81 to Rs. 352.88 crore in 1984-85, and the actual loan disbursal in the year 1984-85 was to the tune of Rs. 199.82 crore. During the year 1984-85 HUDCO financed 3,18,837 dwellings/plots with an average loan of Rs. 11,067 per unit (see Table 3).

The efforts of HUDCO as seen from its operational highlights are commendable, particularly, in the context of popularising the concept of incremental housing. A major portion (nearly 80 per cent) of dwellings constructed out of its funds being meant for economically weaker sections and low income households. This has been made possible by strict adherence to ceiling costs which in turn helped by pioneering innovations in low cost housing techniques. However, there are inherent indirect subsidies in loan terms specially for housing units meant for EWS and LIG families. HUDCO's ability to fund housing projects depends mainly on initiative taken by the housing agencies and development authorities. Seen in this context, the agencies with better infrastructure and more initiative draw more benefits from HUDCO's funds while others are not able to utilise the benefit, leading to regional imbalances in the distribution of resources. Achievements of HUDCO in terms of statewise dwellings sanctioned is given in Annexure I.

Housing Development Finance Corporation (HDFC)

HDFC is functioning as a financing intermediary since 1978. HDFC provides loans to individuals for house construction and secures its loans by mortgages on property. HDFC

also provides loans to cooperative societies and bridge loans for construction finance. Its main sources of funds are deposits raised from public and loans from institutions like LIC, Scheduled Banks, GIC and Sale of Bonds.

HDFC has financed 1,11,164 units up to March, 1985 with an average loan of Rs. 38,154 per unit and a total loan commitment of Rs. 424.14 crore. The loan approvals in the past five years have increased significantly from Rs. 30.30 crore in 1980-81 to Rs. 134.58 crore in 1984-85 and the actual loan disbursement in the year 1984-85 was to the tune of Rs. 93.24 crore. During 1984-85 HDFC financed 27,645 dwellings with an average loan amount of Rs. 48,681 per unit (see Table 4).

HDFC is doing pioneering work as a financing intermediary by way of mobilising private finances through deposits. However, the benefits of its operation are not reaching the informal sector even though there is considerable potential for savings in that sector. The scale of benefits to the formal sector is also limited. As already stated HDFC mobilises funds from the capital market and other institutional sources and at the same time, performs the role of a primary level institution of mobilising deposits from individuals and extending loans to individuals. In the absence of effective support by way of mortgage insurance facility and secondary mortgage market, the scope for enlarging its activities gets limited. HDFC's operations are also having regional imbalances and its operations are particularly confined to big urban areas. Regional distribution of HDFC credit advances is given in Annexure II.

General Financing Institutions (LIC and GIC)

Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) are the two main primary sources of funding for housing sector and lend money to housing institutions at all levels including HUDCO and HDFC. The Life Insurance Corporation also extends housing loans directly to individuals and public sector companies in addition to its own employees. The LIC has in all advanced about Rs. 1,600 crore for housing up to March, 1984.

TABLE 4 ROLE OF HDFC IN FINANCING HOUSING

Particulars	*Period*						*Cumulative total since inception 1978*
	Up to 1980	*1980-81*	*1981-82*	*1982-83*	*1983-84*	*1984-85*	
Gross Loan Approvals (Rs. in crore)	30.30	33.65	46.62	76.11	102.88	134.58	424.14
Loan Disbursements (Rs. in crore)	10.37	20.00	29.79	47.84	74.89	93.24	277.12
Number of units	14076	10189	12403	19472	27379	27645	111164
Average loan per unit (Rs.)	21526	33025	37587	39086	37576	48681	38154

SOURCE : *HDFC Annual Reports.*

TABLE 5 ROLE OF GENERAL FINANCING INSTITUTIONS IN FINANCING HOUSING

(*Rs. in crore*)

Name of Agencies to whom loans given	*Amount disbursed* 1980-81	1981-82	1982-83	1983-84	*Progressive total till March 1984*	
(1)	(2)	(3)	(4)	(5)	(6)	
A. By LIC						
Loans to state governments	47.99	36.40	30.28	52.36	516.06	
Loans to apex cooperative housing finance society, housing boards and HUDCO	45.50	73.00	94.50	104.10	808.47	1422.44 (89.296)
Loans under 'Own Your Home' Scheme (and 'Own Your Apartment' Scheme)	7.94	6.98	6.14	5.70	97.91	
Loans on mortgage of houses	4.85	5.41	5.89	5.50	72.57	
Loans to public limited companies and to societies of employees of such companies	0.62	0.68	—	0.51	8.12	
Loans to coop. societies or of the corporation's employees, directly to employees of the corporation and to agents	5.29	5.72	6.51	5.35	62.41	

Corporation's own residential building construction	0.67	1.66	2.34	2.60	27.49
Sub-Total (LIC)	112.86	129.85	145.66	176.12	1593.03
B. By G.I.C. and Subsidiaries					
HUDCO	15.00	20.00	22.00	30.00	136.00
State Governments	17.63	25.00	23.00	19.50	129.63
D.D.A.	—	—	—	—	6.00
Sub-Total (GIC)	32.63	45.00	45.00	49.50	271.63
Grand Total of LIC+GIC	145.49	174.85	190.66	225.62	1864.66

SOURCE: Annual Reports and Accounts of LIC.

of indirect financing through HUDCO, Housing Boards, Apex Cooperative Housing Finance Societies and loans to state governments which roughly accounted for Rs. 1,424.44 crore, *i.e.*, 89.29 per cent of the total. The General Insurance Corporation (GIC) and its subsidies advanced Rs. 271.63 crore to housing up to March, 1984 and the entire amount was by way of indirect financing and the main beneficiaries are HUDCO, State Governments and Delhi Development Authority (DDA) (Table 5)

Insurance funds with long term deposits are best suited for investment in sector like housing. However, the investment policies relating to Insurance funds are guided by statutory provisions and as such Central Government indirectly lays down the guidelines. Therefore investment of insurance funds for housing is linked with the priority accorded to housing sector by the Central Government. In a situation like the one prevailing in this country where transfer of funds for housing is mainly intra-institutional, it is difficult to make a clear assessment of the total quantum of funds flowing into the housing sector. It is, therefore, essential to monitor the flow of funds to ensure optimum utilisation of funds and also to reduce the cost of overheads that results from multiplicity of channels and heirarchy of institutions, all depending upon one common source. In this context, the proposed apex level institution can serve a very useful purpose by monitoring and channelising the flow of institutional funds into the housing sector in addition to mobilising additional funds through a net work of savings institutions.

Cooperative Housing Finance Societies

Most of the states and Union Territories have established apex housing finance societies to finance housing development undertaken by the primary level cooperative societies. These state level apex societies are one of the most important sources of finance for augmenting the housing stock. The persons in need of houses form cooperative housing societies either for construction of independent houses on the plots developed and allotted by the primary cooperative societies or for allotment of apartments directly constructed by the primary cooperative societies. Part of the fund for construction is

raised by the primary cooperative from its members and balance is received as a loan from the apex cooperative housing Finance Society to which the primary society is affiliated. The major source of funding of the apex cooperative finance societies is the loan advanced by the Life Insurance Corporation of India while a small part of it is through the purchase of shares by the primary cooperative societies. In addition, HUDCO is also extending financial assistance directly to both primary and apex societies for specific housing projects.

The methods of construction and financing adopted by these societies is found popular, particularly in those states where cooperative movement has taken roots as well as in the larger metropolises where housing can be obtained only in apartment blocks. In this system, the apex cooperative housing societies create mortgages on the assets of the primary societies and it is observed that the houses constructed under this system cater mostly to the needs of the middle and lower income groups.

Up to 30.6.1984 over seven lakh residential units have been sanctioned in cooperative sector all over the country with a total loan commitment of Rs. 1217.72 crore. Average loan per unit works out to Rs. 16,342 (see Table 6).

National Cooperative Housing Federation of India (NCHF)

NCHF is the national level organisation of the Indian cooperative housing movement and was established in the year 1969. The role played by NCHF in establishing 14 new apex housing federations/finance societies in different States and UTs by increasing the membership from original six to 20 (up to 1984) is praiseworthy and very encouraging. The main activities of NCHF are: (*i*) to assist state level federations in raising funds from the Life Insurance Corporation of India and other funding agencies, (*ii*) to assist State/UT administrations in the matter of setting up of state level federations, (*iii*) to provide a common forum to member federations to examine problems of housing cooperatives and other allied matters, and (*iv*) to provide guidance to apex and primary societies on technical and legal matters.

Commercial Banks

The commercial banks aim at funding about Rs. 150 crore (about 0.5% of their total credits) for housing. The RBI's circular provides broad guidelines to be adhered to while extending housing loans by commercial banks. An amount of Rs. 65 crore (43.4%) out of the total Rs. 150 crore is earmarked for direct financing to individuals and the rest is earmarked for indirect financing through HUDCO, HDFC and Housing Boards. However, in practice it is seen that the proportion of direct financing to total has never exceeded 16 per cent which goes to show that the commercial banks are not able to make direct lending for housing in view of the technical implications involved in funding housing projects as a whole. It is also observed that commercial banks do not have uniform priority for housing as is evident from the fact that only a few banks account for total funding advanced for housing while some others lend only a very insignificant portion of their total advances (See Table 7).

TABLE 6 ROLE OF COOPERATIVES IN FINANCING HOUSING

	1980-81	*1981-82*	*30.6.1984*
1. Gross Loan Approvals (Rs. in crore)	620.51	254.96	1217.72
2. Total Loan Disbursed (Rs. in crore)	435.06	186.02	856.39
3. Number of Units Sanctioned	4,65,868	1,47,307	7,45,110
4. Average Loan per Unit (Rs.)	13,320	17,308	16,342

SOURCE : Annual Reports of NCHF and Hand Book of Cooperative

TABLE 7 ROLE OF SCHEDULED COMMERCIAL BANKS IN FINANCING HOUSING

	1980			1981			1982			1983		
	Direct	*Indirect*	*Total*	*Direct*	*In-direct*	*Total*	*Direct*	*In-direct*	*Total*	*Direct*	*In-direct*	*Total*
1. Public Sector Banks, SBI and its subsidiaries	0.10	6.23	6.33	1.95	9.77	11.72	1.97	6.63	8.60	2.29	11.20	13.49
2. Nationalised Banks	10.70	52.84	63.54	4.81	45.66	50.47	3.65	74.10	77.75	4.23	64.48	68.71
3. Other Banks including Foreign Banks	0.53	1.10	1.63	0.24	2.11	2.35	1.21	1.31	2.52	1.73	5.28	7.01
4. Total	11.33	60.17	71.50	7.00	57.54	64.54	6.83	82.04	88.87	8.25	80.86	89.21
(Percentage)	(15.85)	(84.15)	(100.0)	(10.85)	(89.15)	(100.00)	(7.69)	(92.31)	(100.00)	(9.25)	(90.75)	(100.00)

SOURCE : Reserve Bank of India.

Commercial banks resort to indirect financing would reduce their risks, but in the process the very purpose of envisaging housing credit through bank to individual households gets defeated especially when no other financing agency exists for the purpose. Hence, it would be desirable to ensure that banks extend the entire 0.22 per cent of their total advances earmarked for housing as direct loans to individuals or alternatively this amount could be channelised through the proposed national level apex bank or have increased allocation for National Housing Bank from this source.

International Funding

The World Bank, UNCHS, RTA of UK, and US AID, are some of the major international agencies interested in the housing sector, but seen in the overall context, their participation is limited. Most of the funds from these sources are channelised through Government of India and part of the assistance is in kind by way of extending training facilities under exchange programme for development of skills and research grants.

In the context of institutional intermediation, attempts to mobilise funds for housing from international capital markets with guarantees from Indian and foreign governments as also negotiating a line of credit to augment the resources already available within the country are some of the major issues that needs attention.

From the above it may be seen that direct funding to the individuals by general finance institutions is extremely limited and forms only a fraction of their total advances. The position needs to be remedied. It emphasises the need for setting up of specialised financing institutions which would play their due role in the housing finance sector and also help to augment resources from the depositors which could be channelised to this sector.

NEW APPROACHES: NATIONAL HOUSING BANK (NHB)

The proposal in the Seventh Five Year Plan document to set up a National Housing Bank as an apex body of a housing finance system in order to promote institutional inter-

mediation in housing finance, would definitely go a long way in mobilising additional resources to this sector. As already explained, the virtual absence of a housing finance system which could gives depositors a reasonable rate of return and long-term credit to potential home owners, for acquiring their houses has resulted in a stagnant housing situation which is affecting the stability of the society. The estimates in the Seventh Five Year Plan indicate investment in the private sector to be around Rs. 29,000 crore compared to only Rs. 2,500 crore in the public sector. It is, therefore, necessary to see that investments by the people are channelised for optimum utilisation by the specialised housing finance intermediaries, who will also see that lowest cost credit is made available to the borrowers interested in investing in housing stock.

The institutional framework envisaged for housing finance would, therefore, be an open system which would encourage people to deposit their savings in the specialised housing finance intermediaries by creating a climate of confidence in those institutions and which would make available long-term credit through various lending and mortgage mechanisms suited to the especial needs of different categories of home owners.

The bank at the national level could serve as a guide and also augment resources of the institutions which would be created at the regional and state levels through guarantees, mortgage insurance and refinance facilities and also hasten the process of creating a secondary mortgage market. It could also extend technical assistance for operational and managerial efficiency which is a vital input for success in this sector. To do so, it would have to specialise in raising finances in bulk at the lowest cost while regulating the housing finance institutions for similar objective. An efficient housing finance system would not only draw available institutional resources from institutions mentioned earlier, such as government, RBI, LIC, GIC, UTI and money lying idle in Provident Fund, Employees Insurance Fund, and other funds but its main purpose would be to specialise in creating financing mechanism that would serve to attract more investments from the general public into this sector keeping in view the keen desire

of a working individual to provide a dwelling unit for his family.

The National Housing Bank could assist considerably in attracting funds from the capital markets, both, domestic and international. This does not imply that regional and state level institutions cannot do so directly but the National Housing Bank could act as a facilitator to enlarge the credit flow into this sector. The strength of a housing finance system would be not so much depend upon resources of the institutional sector but on mobilisations from the public at large, in view of its ability of being able to serve different categories of population by attending to their particular credit requirements. In addition, it is envisaged that in the course of time, the lending mechanism of commercial banks would also be streamlined and additional bank funds would flow into the housing sector. The National Housing Bank could also be a partner in the financing of housing schemes of the commercial banks which may help in reducing high lending rates of commercial banks so that both the potential home owner and commercial banks find investments in the housing sector an attractive proposition. The partnership with the commercial banks could also help in cutting down operational cost by utilising financial skills and efficient delivery mechanisms available with commercial banks through their branches.

The next level below the apex body is the crucial link between the savers and the borrowers. These linkages are envisaged at the state and regional levels. As such, there is considerable gestation period for a specialised housing finance network to become operational. At the regional or state level, the housing finance institutions need not necessarily be state sponsored bodies or ones totally in the private sector. They could well be joint sector enterprises. The setting up of the second tier institutions would greatly reduce the regional imbalance in the availabiliy of housing credit and also in the balanced distribution of resources. It has to be understood that the absence of housing finance intermediaries does not necessarily imply lack of financing resources. It only implies the lack of pioneering enterpreneurial skills in visualising the market for housing finance. At the third level, there could well be separate

branches of the housing finance intermediaries at the district or local level, or it could envisage grassroots savings and loan associations and building societies. In fact, the intermediaries at the state and regional level should try to promote the setting up of such institutions at the local level.

Recent surveys with regard to determining the savings propensity of households in Maharashtra have indicated that it is possible to mobilise savings, both in the formal and informal sectors. In addition, it has been found that more than one household member contribute a fair percentage of their earnings towards total savings of the household. It also indicated that savings rate in both formal and informal sectors varies from 10 to 50 per cent in different income groups.

STRATEGIES FOR SAVINGS MOBILISATION

The strategy for mobilisation of individual savings from household sector has to aim at the following: (*i*) mobilisation of short-term deposits which people hold as 'bridging' funds for their day-to-day needs; (*ii*) mobilisation of contingency balances with indefinite maturity which are kept as a reserve for unplanned expenses to meet any crisis or major expenditure such as, for children's higher education, weddings purchase or construction of flats/ apartments or expanding and improving the existing dwellings. The last mentioned expenditures are major one and often the largest single capital investment ever made by an individual. (*iii*) Offer attractive packages for drawing investments from households which have surpluses and who generally try to maximise their returns. This can also reasonably attracted for more remunerative housing intermediary system as investment in real estate is also profitable with high capital appreciation. Such a package could effectively attract savings to this sector as the commercial banks by tradition and by function consider housing as an unproductive area of investment. (*iv*) Develop specific strategies to attract corporate funds as corporations both in the public and private sector are increasingly realising

that provision of housing in the current urban situation can not be neglected or ignored in order to attract and retain the right type of personnel with them.

FISCAL INCENTIVES

Income Tax

Liberalisation in the provisions of the Income Tax Act are called for to give incentives for investment in housing directly and also to help household savings channelised into housing sector. Amendments to some of the provisions of the Income Tax Act that may be considered in this context are:

(*i*) As per section 23(2) of the Income Tax Act income from a self-occupied house property is computed in a concessional manner. The net annual value of such properties restricted to 10 per cent of the other income of the tax payer. Since, no income really accrues to the owner a major portion of the notional income from the self-occupied house property should be exempted from the income tax. This will not only reduce the burden of house owners, but may also facilitate prompt repayment of loans taken by them for construction or a purchase of the house.

(*ii*) As per section 23(1)-Clause(c) second proviso, a rebate of Rs. 3,600 per annum is given in the initial five assessment years on the rents earned from newly constructed home property when the same is let out. Keeping in view the fact that the ceiling cost in respect of the Middle Income Group housing has been fixed at Rs. 75,000 in the Seventh Plan and the likely instalment that this entails the house loan borrower to pay, it is proposed that the deduction limit in respect of each of the new residential units be raised to Rs. 10,000 per annum in the initial five assessment years.

(*iii*) Under Section 32(1) (iv) of the Income Tax Act, a tax payer carrying on business is permitted a deduction of 40 per cent of the actual cost as an initial depreciation allowance on the residential building unit for

his low paid employees and for other social welfare buildings built as a labour welfare measure. In order to induce more investments in the field of housing, specially by the corporate sector, this deduction limit should be 100 per cent since, no income accrues to the investors. A similar concession may be extended to the public companies who provide long-term finance for construction/purhase and also improvement of housing stock in the country.

(*iv*) As per Section 80 CC of the Income Tax Act, individual tax payers and association of persons are eligible for a deduction of 50 per cent of the cost of investment on shares up to a maximum of Rs. 10,000 when they acquire/invest in shares floated by the approved public companies providing long-term finance for housing. It is desirable to raise the deduction limit to 100 per cent of the investment and maximum deduction limits should also be suitably enhanced.

(*v*) As per Section 80 L(1) (vii) and (vvi a) of the Income Tax Act individual tax payers or specified association of persons are entitled to deduction up to Rs. 7,000 in respect of interest on deposits with approved public housing finance company and other agencies, such as State Housing Boards. It is desirable to raise this limit to Rs. 20,000 in order to attract investment balances held by wealthier households.

(*vi*) At present investments/contributions in Life Insurance Policies, Provident Funds, National Savings Certificates and Unit Trust of India Funds become 'eligible savings' exempt from Income Tax in a graded manner. Similar provision should be made in Income Tax Act to exempt the investments made by individual tax payers in respect of purchase of savings instruments floated by the proposed National Housing Bank and state level financing intermediaries.

Wealth Tax

Some of the provisions of the Wealth Tax Act that can be suitably amended are:

(*i*) The wealth tax exemption limit should be raised from

the existing limit of Rs. 1.5 lakh, as laid down in Section 5 (1) (iv) to Rs. 2.5 lakh.

(*ii*) As per Section 5(1) (xxvii) of the Wealth Tax Act, deposits with an approved public housing finance company is exempt from wealth tax subject to overall ceiling limit of Rs. 1.65 lakh. It is suggested that this limit should be increased to Rs. three lakh to encourage investments in the housing sector by non-house owners directly or by investing in the funds mobilised by housing companies.

HOUSING AS AN INDUSTRY

For any sector to be treated as an industry, the following requirements should be fulfilled: (*i*) It should involve manufacturing activities; and (*ii*) The manufacturing activities should be carried out in a factory. According to an estimate of NBO, over 65 per cent of the cost of the house consists of the building materials and only 30 to 35 per cent of the cost of a house consists of the labour component. Building materials are manufactured in the industrial units, large, medium and small. In order to encourage standardisation and innovations in the technology of house construction activity, it is necessary to introduce innovations in building methods and also provide appropriate tools and equipments which would not only improve the working conditions of labour, but would also expedite the pace of construction, and at the same time improve technological changes in construction industry which has remained, by and large, very traditional. To achieve the objective it is essential to declare housing as an industry. This would give housing sector the access to loans from banks and other financial institutions. It can also avail concessions now available to other industries. Housing sector is also responsible for providing employment to large-scale labour workforce including unskilled, semi-skilled and skilled workers. This is an additional factor that should justify the flow of benefits of an industry to this sector.

STRATEGIES FOR LENDING

The housing finance intermediation would have to evolve a lending system which would basically aim at proving credit for much longer period than that is usually envisaged by industrial or general finance institutions. Even general finance institutions, such as Life Insurance Corporation and General Insurance Corporation do not envisage a sufficiently long-term credit facility as is required to be provided by the housing finance institutions. Adoption of a strategy in above regard should also include making available short-term credit at higher rates of interest for activities, such as home improvements and enlargements and also by giving construction loans to the builders of multi-storeyed flats/number of dwelling units.

Setting up of the housing finance system envisages the need for evolving alternative lending mechanisms with a variety of mortgage instruments, and mortgage insurance facilities. Alternative lending packages that suit different sections of population, both formal and non-formal sectors need to be evolved so that it attracts investors vocation on one hand and borrowers on the other and also help, the housing finance institutions in the matter of liquidity, etc.

Alternative Mortgage Mechanisms

The conventional fixed rate level payment mortgage is most suited to serve only the salaried sclients (stable incomes) from the organised sector, generally middle income families. To envisaged housing finance institutions, therefore, have to look for alternative instruments to reach out to other groups. They are:

(*i*) *The Blocked-Compensation-Balanne Mortgage* (*BCBM*) helps to reduce the lending risks to borrowers from the informal sectors by asking for a security deposit from the borrower. This deposit could also earns interest at standard rate paid on saving deposits. A lending institution could advance 80 per cent credit by keeping a deposit of 20 per cent with approximately 20 years period of repayment. This gives an access to

the credit to the borrowers who otherwise would not normally be entitled for the same.

(*ii*) *The Sequentially Escalating Mortgage* (*SEM*) has a focus on low income families who are expected to build their own houses and are given a line of credit to borrow at different intervals up to a given amount with long-term repayment of around 25 years.

(*iii*) *The Graduated-Payment Mortgage* (*GPM*) is a useful mechanism available to housing finance institution for expanding their deposit base by appealing specially to younger families who are likely to have higher incomes in future. Ammortisation of such loans may be made easier in the initial stages for borrowers with increase over a period of time.

(*iv*) *The Variable-Rate Mortgage* (*VRM*) *and Role-over Mortgage* (*ROM*) are suitable in high inflationery economic situations. The housing finance institutions try to balance the increases in the cost of funds mobilised by spreading it over both new entrants for housing loans as well as the current ones by way of periodic adjustment of the rate of interest charged on the loan. Adjustment period for interest rates may be short or long depending on the rate of inflation. It may be worthwhile to consider the possibility of households investing in house construction for their needs and also for renting a part which could help to reduce the burden of repayment liability. A system could be evolved whereby rental returns are tied to repayment requirements.

It has to be recognised that lack of mortgage institutions which could provide funds for middle income families is a serious market imperfection which unnecessarily restricts housing construction and also resulted in middle income households 'grab' the low income housing. That is why the provision of seed capital to such institution could play an important role and in long-term efforts for the reduction in the subsidies in the sector and make it gradually self-reliant.

SECONDARY MORTGAGE

Mortgage loans normally cover only a part of the actual cost of the property/house being financed. For a property worth say Rs. 60,000, the loan amount could be around Rs. 50,000 or even less though the property as a whole is mortgaged. Credit advanced for home ownership is one of the safest forms of commerial lending despite long-term maturity because of the safety of the real estate collateral. The value of the property financed in real estate market is many times more than the actual cost. This means mortgage loan of only Rs. 50,000 is extended on mortgaging a property costing Rs. 60,000 though its market value may be many times more than Rs. 60,000. In view of the above, mortgage loan extended by a primary mortgage institution is an asset in real terms though in a conventional sense it is seen as a liability of the institution, whereby the primary mortgage institutions were not in a position to mobilise more funds. Since, mortgage loans have longer maturing periods, funds get locked up till such time the mortgage loans are redeemed. Secondary mortgage institution recognises the fact that mortgage loans extended by primary institutions is an asset and buys these mortgage loans by extending further credit to the primary institution. For instance, secondary mortgage institution such as the proposed National Housing Bank may extend a credit (or alternately extend guarantees/securities to enable the primary mortgage institutions to secure loans of say Rs. three lakh by mortgaging Rs. five lakh primary mortgage loans extended by a primary institution. The actual market value of Rs. five lakh of the primary mortgage loan may be many times more in the real estate market. In this fashion, credit to the housing sector is augmented by doubling or tripling the funds flow.

Like any other secondary market, the principal function of a secondary mortgage market is to increase the liquidity of the instrument traded. In general, greater the liquidity or marketablility of a security, the broader and deeper is the market for it is regardless of its ultimate maturity. This is so because the holder of the security has confidence that he will not have to wait for the instrument to mature to recoup

his investment. Thus the existence of a secondary mortgage market is of benefit to housing finance institutions. In periods when housing finance institutions experience net savings out-flows (financial disintermediation). In case they mortgage portfolios can provide a source of liquidity to cover savings withdrawls; they are not then completely dependent on the central authorities for liquidity support. Moreover, given a secondary mortgage market, housing finance institutions are not strictly limited in their origination of new loans by their net deposit inflows and scheduled loan repayments. Existing loans can be sold in the secondary market to raise capital for the new loans or the new loans can immediately be 'passed through' to the secondary market. Profit remains for the institution since it usually retains all origination fees and collects a portion of the interest on the loan for servicing (*i.e.*, collecting payments and forwarding them to the holder of the loan).

How to Make Secondary Mortgage Market Functional ?

There are two preconditions for the establishment of a secondary mortgage market: (*i*) Existence of a primary housing finance system to originates and service mortgage debt (HDFC) type agencies, primary cooperatives, savings and loan associations, etc.) (*ii*) Existence of 'investment balances', *i.e.*, availability of investment funds. Towards efforts need to be made to tap the capital markets by establishing new institutions with support from other financial institutions and the national government. At the same time, efforts have also to be made to mobilise and channelise household savings particularly 'contingency balances' held by the households (with indefinite maturity periods) and also the 'investment balances' held by wealthier ones among them with expectation of higher returns. An efficient secondary market requires an institutional structure of its own. Increasing the financial asset traded being the principal function of a secondary market, facility for both purchase and sales of financial instruments (certificates, bonds, etc.) must be available. It is proposed that National Housing Bank would in the course of time would be instrumental in creating of time help the establishment of a secondary mortgage market in the country.

HANDICAPS TO A HOUSING FINANCE SYSTEM

Though the forms of commercial lending. One of the major impediment towards developing a housing finance system is the lack of developed land in cities with adequate infrastructural facilities with clear tenurial rights. In larger cities it would necessarily mean an investment in urban infrastructure as also earmarking of land for house construction either by providing individual plots or land for construction of apartments although not necessarily high rise housing. In addition, land developed through attractive land readjustment schemes which would give both the developer and the owner of the land a stake in its development would greatly hasten the process. A realistic land acquisition and compensation policy by giving a market price therefore called for help. This would call for advance planning and location of resources for the purpose.

On account of inadequate credit facilities for housing in developing countries, today there is a tendency for the better off income groups to 'grab' the houses constructed for those in the lesser income categories, thereby depriving those groups of the benefits envisaged for them. This indirectly results in the public sector providing a hidden subsidy to those who could afford to pay a higher price for the funds used for housing development. Developing a housing finance system with adequate opportunity for low, middle and higher income groups to avail of credit helps to ensure that the housing units for the poor and economically weaker sections actually remain with them and thereby would avoid the 'filtering' process of higher income groups occupying the houses constructed for the poorer sections.

Another major handicap is in the attitude of commercial banks and even specific finance institutions to lend only on the basis of evaluation of the real estate collateral on its present value rather than giving due consideration to its long-term market value. A total project approach is, therefore, required on the part of the lending institutions so that adequate credit flow could be ensured.

Credit for housing is advanced on the basis of existing incomes and on a monthly/quarterly repayment throughout

the loan period on an equated pattern. This acts as a bottleneck to likely savers who have potential for saving and better 'affordability status' in the future than that actually rated by the lending institution. As a result they are unable to get the maximum eligible credits for larger investments in houses which they can actually afford.

Developing a Viable Real Interest Rate System

Due to welfare tradition, there is a tendency of low interest rates with a consequential adverse impact on resource mobilisation and deposits flowing into the housing sector while at the same time affecting the viability of the financing institutions and retarding their growth. At the same time demand for credit particularly by the middle and low income groups increases as the interest rates are much less than that available from other general financing institutions or commercial banks. This results in a large backlog of people who rather wait for a housing loan at low interest rate than going elsewhere. Affordable and reasonably attractive investments have to be provided to both borrowers and depositors. The absence of adequate savings mobilisation from primary sources makes the housing finance institutions too much dependent on the exchequer.

Other handicaps which need to be tackled are the escalating cost of building materials, obsolete and costly building methods and materials especially those introduced in the early part of the 20th century with steel and cement as the main components. To overcome this problem emphasis should be laid on building cheaper, low cost and low rise houses through people's participation in less populated cities which have good potential for commercial and economic development.

CONCLUSION

As in the seventies when a major revolution in the banking sector took place by nationalisation of banks which was further extended to rural sector through the creation of National Bank for Agriculture and Rural Development (NABARD). A major thrust is now required to develop a

housing finance network in order to give necessary impetus to the genuine needs of vast majority of people who are living in rented and substandard accommodations. Home ownership is the key to econmic and social stability and it gives the psychological satisfaction and sense of security to a citizen which cannot, be measured in tangible terms. Providing a house can, therefore, be considered an essential part of the development process. It is as essential and important as industry or agriculture housing fulfils the basic needs of the households and also ensures living conditions conducive for the dignity and welfare of our citizens.

The present scale of operations and role of existing housing finance institutions do not touch even the fringe of the problem. In addition to enlarging the role of HUDCO and HDFC, there is also a need for the setting up of Housing Finance institutions in private, joint and public sectors for mobilisation of savings and also for activising people's participation, for enabling many of the households who are denied housing credit to avail of that facility. It is necessary that active participation of the people and opportunity to invest in housing by people are encouraged and enlarged, so that level of the operations in that regard are increased many times.

When one thinks of housing finance system one should not only think of investible savings. A lot of achievement is possible through proper organisational and entrepreneurial skills. As stressed earlier, even when investible funds and the potential for expansion of housing sector exists, it is not always utilised due to lack of opportunities. This in turn, is because of the non-existence of the required organisational, entrepreneurial and infrastructural base. Significant achievements have been made in many countries through the medium of housing finance system and keeping in view the philosophy of 'quantum multiplication' in the housing sector as indicated in the Approach Paper to the Seventh Five Year Plan.

Annexure I

HUDCO'S STATEWISE STATISTICAL INFORMATION AS ON JANUARY 31, 1986

States/UTs.	*No. of schemes*	*Loan sanctioned (Rs. in lakh)*	*No. of housing units sanctioned*	*No. of plots sanctioned*
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	519	18,403	3,40,905	2,797
Assam	13	601	2,314	0
Bihar	67	4,219	84,965	3,691
Gujarat	470	19,133	3,45,959	7,659
Haryana	130	7,269	40,328	109
Himachal Pradesh	56	964	3,114	756
Jammu and Kashmir	26	1,427	5,102	10,704
Karnataka	294	11,056	3,53,627	3,966
Kerala	194	11,583	2,45,398	1,288
Madhya Pradesh	211	9,986	1,31,297	74,276
Maharashtra	471	21,310	1,83,884	10,113
Manipur	4	259	629	0
Meghalaya	1	7	115	0
Orissa	112	6,129	59,347	791
Punjab	152	6,399	49,167	1,969
Rajasthan	408	18,302	1,97,526	18,734
Sikkim	2	30	76	0
Tamil Nadu	448	17,283	1,67,112	16,195
Tripura	2	49	418	0
Uttar Pradesh	405	26,291	1,54,969	31,775
West Bengal	57	4,324	31,292	878
A & N Islands	1	9	15	0
Chandigarh	36	3,119	17,136	3,962
Delhi	34	7,510	38,094	0
Goa Daman and Diu	4	97	206	321
Pondicherry	5	226	1,383	0
All States/UTs.	4,122	1,95,985	24,54,378	1,89,984

SOURCE: *HUDCO Information Sheets.*

Annexure II

PATTERN AND STRUCTURE OF HOUSING FINANCE OF HDFC—ASSISTED HOME OWNERS IN WESTERN, NORTHERN, SOUTHERN AND EASTERN INDIA

(Rs. in lakh)

	Western	*Northern*	*Southern*	*Eastern*	*Total*
1. Self-Financing	50.9 (42.4)	16.9 (44.2)	33.1 (48.9)	14.1 (47.3)	115.0 (45.0)
(*a*) Savings in banks	26.5 (22.0)	6.6 (17.3)	6.5 (9.7)	8.8 (29.6)	48.5 (19.0)
(*b*) Disposal of investments	16.8 (14.0)	1.8 (4.7)	0.7 (9.9)	2.3 (8.2)	27 8 (10.8)
(*c*) Savings during construction	0.2 (0.2)	0.3 (0.9)	0.7 (1.0)	0.5 (1.7)	1.7 (0.7)
(*d*) Amounts already paid	2.5 (2.1)	6.6 (17.1)	13.0 (19.2)	0.4 (1.3)	22.4 (8 8)
(*e*) Provident fund loan	4.9 (4.1)	1.6 (4.2)	6.2 (9.1)	1.9 (6.5)	14.6 (5.7)
2. External Financing	69.4 (57.6)	21.3 (55.8)	34.5 (51.1)	15.7 (52.7)	140.0 (55.0)
(*a*) HDFC	46.6 (40.3)	16.5 (43.1)	28.4 (42.0)	12.9 (48.3)	106.0 (41.5)
(*b*) Employer	1.8 (1.4)	— (—)	0.4 (0.6)	Neg (0.1)	2.2 (0.9)
(*c*) Relatives	12.1 (10.1)	2.4 (6.3)	1.6 (2.5)	1.6 (5.2)	17.7 (6.9)
(*d*) LIC	0.3 (0.3)	Neg (0.1)	— —	— —	0.4 (0.1)
(*e*) Banks	0.1 (0.1)	— (—)	— (—)	0.1 (0.3)	0.2 (0.1)
(*f*) Others	8.5 (5.4)	2.4 (6.3)	4.1 (6.0)	1.1 (3.8)	14.1 (5.5)
TOTAL	120.3 (100.0)	38.2 (100.0)	67.6 (100.0)	29.8 (100.0)	255.9 (100.0)

NOTE : Figures in Parenthesis are per cent of total.

SOURCE : Vinay D. Lall, *Some Aspects of Economics of Housing in India*, 1982.

An Overview of Housing Finance System in India

*S.K. Sharma**

The last three to four decades have seen significant institutional development in the area of housing finance in our country. Established in 1970, the Housing and Urban Development Corporation (HUDCO), has set the pace for increasing emphasis on affordable housing for the economically weaker sections as a major thrust area. The conflict that existed between affordability and institutional viability is also attempted to be resolved through careful formulation of projects for all income groups and by internalising cross-subsidies as the basic strategy. Seeing shelter as an important sector, resource support to existing institutions in the Seventh Five Year Plan has also been augmented significantly and practices and procedures are being streamlined to enable institutions to mobilise resources efficiently at minimum cost.

The housing finance system that has emerged is quite diverse. We have now a national level public sector institution, HUDCO, catering to all income groups in an integrated and financially viable composition. In the private sector the Housing Development Finance Corporation (HDFC) is catering to individual house loan requirements and there are moves to set up more HDFC type institutions in the country. Some institutions have come up through the initiative of the builders but their impact is still to be evaluated. Efforts are also on to bring in the banking sector and provident fund resources into the housing sector more meaningfully with assured supply of money at reasonable cost. The Life Insurance and General Insurance Corporations too are reviewing their mode of lending, to help to reduce collateral costs of borrowing. The

*Chairman and Managing Director, HUDCO, New Delhi.

Government of India has decided to set up a National Housing Bank with the primary role of mobilising deposits required for the housing sector through local saving and loan associations. Deliberations are also at an advanced stage to promote a separate company to take on the job of introducing mortgage insurance in India.

There are a few features of HUDCO which distinguishes it from other institutions. First is that it predominantly caters to the weaker sections, over 88 per cent of the housing units promoted by it being for the LIG and EWS categories. Second is that it is the only institution which has been able to reach housing finance to rural areas in a meaningful way where it has promoted over one milllon housing units during the last few years. The third and a vitally important feature is that it is the only financing institution which is looking to the technical aspects of housing development including housing in the regional and urban context, area planning, physical and social infrastructure, layouts and architectural standards, building materials, project management, conservation, social and economic aspects of housing, development of the weaker communities, supportive research and training of the personnel engaged in the housing sector. Thus, HUDCO is the only national level techno-financing institution which is and will continue to be involved in all aspects of city and regional development with emphasis on housing for the weaker sections.

At the State level, apart from the state housing boards a number of Development Authorities and Improvement Trusts with jurisdiction over specific urban areas have been and are being established which deal with area development and often also with housing and site and services programmes. There is now an attempt to further augment the institutional structure at state level by establishing specialised agencies for various purposes like rural housing, slum upgradation, weaker section housing, police housing, water supply, sewerage and municipal finance. Some of these have become effective organisations whereas some exist only in name. Notwithstanding this, the need for such institutions is being increasingly promoted and also being opposed on grounds of additional overhead costs.

A number of state housing city and development authorities are now, with HUDCO assistance, moving into the area of cash loans for housing to a greater extent than before. Kerala has already demonstrated that the cash loan programme handled through State agencies can promote weaker section housing using traditional technologies in a very meaningful way. Karnataka has adopted this programme in its six major cities and other states are also moving in this direction. There are two facets of this programme. The first is that in area development schemes, an option may be given that the allottee can either have a built house or a plot with cash loan. The second is cash loan on a plot owned by the applicant in any location. HUDCO's main thrust is on the first alternative though it does not discourage the second. Through this reorientation of functions, the state agencies will emerge as powerful facilitators of increased access to land and cash assistance with people building their own houses according to their requirements and affordability. In these loan programmes, mobilization of deposits from the people will be integrated. The introduction of the loan linked deposit scheme by the HDFC was a beginning and in the years to come, can emerge as a significant programme at the institutional level. It will, on the one hand increase the flow of household savings in the housing sector and on the other, strengthen the financial base of the housing institutions.

A major contribution in the housing finance sector is being made by the cooperative movement. The State apex housing cooperatives, largely funded by LIC and GIC and supported by HUDCO, are promoting housing in a big way through the cooperative structure. There are some significant features of the cooperative structure. One is that by taking share capital contribution from prospective loanees, they are already practising loan-linked deposits which is being projected in recent years as a new concept in mobilizing personal savings for housing. It needs consideration at the policy level whether new intitutions called saving and loan associations be set up or the cooperatives be strengthened and, if necessary, remoulded. Another feature is that cooperatives provide a medium through which the private sector, namely, private promoters and builders can be brought into parti-

cipate in housing development and provide houses of acceptable cost and standards with lower overheads. Some of the cooperatives, however, suffer because of poor recovery and managerial capabilities. The cooperative housing movement in India will stand greatly strengthened in the years to come as HUDCO has decided to extend its support to it in a much more positive manner and has specifically set apart certain funds for it, which will be progressively increased, and, thus, providing an access to the low interest rate finance of HUDCO to the low income and weaker sections in the cooperative fold.

EFFORTS TOWARDS CONSOLIDATION

The above developments taking place on a wide scale need to be consolidated so that the housing finance system can reach higher levels of development. One of the prime considerations in this should be to correlate institutions at national, state and local levels to avoid duplication of efforts and the scramble for scarce resources. In other words, there is need to integrate policies, objectives and operational framework towards a long-term housing finance policy. The long-term housing finance policy ought to outline and define issues with focus on the legislative and statutory backup required in the context of these developments and the development perspective visualised in the Seventh Five Year Plan. In this policy perspective, one has to identify in greater detail the physical and financial parameters with roles assigned to each institution in terms of areas of operation and the finanacial and legal backup required for the housing finance system.

The only way to deal with this is to have a National Housing Act. This Act should cover all aspects of the working of the institutional intermediation, investement processes, income tax exemptions, inter-institutional coordination, mortgage laws to promote loan recovery, mortgage insurance leading to the development of a secondary mortgage market, registration of promoters and builders, definition and regulation of corporate development including 'co-ops' and condominiums, rent control and such other matters. At the National level, the Act could provide for

tion and lender of the last resort and as an institution regulating and coordinating State Housing Regulation Authorities constituted at the State level for administering the Act and financing and regulating Savings and Loan Associations set up at the local level. Since housing is a State subject, the Act would have to be adopted by each State. Such a regulatory legislation dealing with diverse topics bearing on housing development seems essential if institutional development in housing finance and development is to meaningfully take place.

One of the most appropriate ways to direct household savings to the housing sector would have been to utilise provident fund and life insurance funds for the purpose, since, from the point of view of an individual a house is his best old age insurance and left to himself, he would prefer to put his savings in housing. However, allocation of long-term funds for housing from these institutions have not been at the required level and have frequently tended to be on commercial terms. Furthermore, each financial institution is developing conspicuous tendencies to directly tap the savings available at the disposal of the households leaving very little with them for investing on housing. If the overriding emphasis has to be on household deposit mobilisation then there is a need to create a proper financial incentive structure for investment in the form of deposits for housing loans or deposits with housing cooperatives or the contemplated loan and saving associations. The success of the loan and saving tppe of institutions in countries like West Germany and United Kingdom can be directly attributed to the tax incentives that these institutions derive. A survey of various other countries will show a number of other collateral measures taken towards effective mobilisation of household savings for housing. These include attractive rates of interest, some sort of indexing of the assets of the associations to protect them from inflation or fluctuations in interest rates, protection against too much demand against limited deposits of funds, attracting other institutions to extend requisite support and ensuring limited administrative cost while maintaining a high level of depositor satisfaction.

Further, since lending policies for institutions working in

the area of housing for the weaker sections will continue to be subsidized, there is a need to have, on the pattern of long-term fiscal policy, a policy for state support to these institutions. These institutions can be supported by income-tax exemption, interest differential support, etc., or allowed more leeway to mobilise and deploy resources to achieve financial viability. Along with this, the overall resource-mix deployment at national level has also to take into account financial and project viability at the level of the recipient institutions. A balanced financing package facility, capital cost subsidization in favour of housing for the weaker sections, balanced area development with adequate social and economic infrastructure and viability of the operations of the state housing agencies thus enabling them maintain a proper flow of housing stock, are things which cannot be ignored.

Another area in which considerable work has to be done is corporate investments in the housing sector. In some countries such as France, Italy and Japan, the corporate sector is required to deposit one per cent of their wage bills for housing. There is a need to promote such schemes and funds so mobilised can be placed at the disposal of institutions promoting housing. One could, in fact, allow the private companies to have various options of investment. They could utilise these funds for giving housing loans, making deposits with housing finance institutions, reducing interest incidence or giving matching contribution for staff housing cooperatives or themselves financing low income housing projects.

A note of caution is necessary at this stage. Even if the needs of housing investment are rapidly growing, the evolution of specific financial intermediaries must take place in a way that will not promote further fragmentation of the capital market. Too often, policy recommendations have been limited to specific institutions and reforms of the financial structure have not been based on a comprehensive data analysis of savings and the structure of flow of funds. Isolated operations typically lead to further fragmentation. A housing finance system with a large number of institutions may ultimately prove inadequate whereas a well balanced effective system may require a smaller number of institutions. In many less developed countries, proliferation of institutions is leading to

flitting away of scarce managerial resources. The creation of new agencies must go beyond its assumption that increased competition cannot hurt and that some financial institutions might follow. The three principles of financial regulations are clear. They are: (*i*) to improve competition, (*ii*) to increase efficiency, and (*iii*) to stimulate long-term finance. At the operational level a typical housing finance system is expected to:

1. mobilise household savings into the mortgage and home improvements loan markets;
2. provide maximum incentives for increasing the volume of financial savings into the economy;
3. allocate the supply of loanable funds among households;
4. provide policy controls over the allocation of resources between the urban sector and other sectors of the economy;
5. direct the demand for housing the community facilities towards unused or ineffectively used resources;
6. stimulate efficient methods in planning and construction of residential areas which might require large lumpsum investments;
7. improve the financial and commercial evaluation of projects;
8. extend financial services to all segments of the population in particular the self-employed and lower income households;
9. re-allocate funds from relative surplus to relative deficit areas; and
10. facilitate the flow of domestic and international resources into priority areas.†

Before concluding, there is one aspect of the matter which needs to be re-emphasised. While we are deeply concerned about mobilising resources for a meaningful housing development programme and developing institutions to support it

†Bertrant Renaud, *Housing and Financial Institutions in Developing Countries—An Overview*, World Bank, 1984.

the technical aspects of housing should not be overlooked and should, in fact, be emphasized. Financing individual housing units even in fairly large numbers is a relatively simple matter but to sustain such a programme, problems of land assembly and planning in the overall regional and urban context require a positive and comprehensive approach. If this is left entirely to the state housing development authorities with the financing institutions playing no role in it, it could lead to housing development of indifferent standard and environmental quality. The housing finance institutions with their in-built capacity to enforce sanctions, should not only provide positive support through financial incentives but also through interventions and enforcements of conditions and stipulations in loan sanctions. However, all housing finance institutions are not equipped to do so. If financing institutions are to look into these areas, they will have to be adequately equipped technically with strong research backup. HUDCO is perhaps the only institution in the country at present which is looking into these areas in a significant manner. Though HUDCO is being identified as an institution for primarily financing housing for the weaker sections, which it is, it has over the years developed a strong technical base and is going deeply into the broader areas of housing in the regional and urban context with indepth research backup on planning and architectural standards, social aspects of housing, etc. In this sense, HUDCO is truly a housing and urban development institution and its premier role in this area will, therefore, have to be fully recognised and strengthened.

Housing Finance in the Seventh Plan Perspective

*Vinay D. Lall**

A major objective of the Seventh Plan is to strengthen the financial infrastructure for housing as studies have shown that an important constraint is finance. In the final analysis, it is the inadequacy of finance at the individual level that delays the active desire of potential home owners to contemplate and/or undertake a housing activity. Hence, the Seventh Plan has observed "the biggest weaknesses of the housing sector is the non-availability of long-term finance to individual house builders on any significant scale" (p.295). It has recommended rightlythe creation of a National Housing Bank (NHB) to "act as a conduit for institutional finance". The NHB will amongst other things, mobilise resources from the capital market on a mass basis and also develop innovative strategies to mobilise savings of the household sector, including households which are not covered by the existing savings schemes. The Seventh Plan strategy also envisages several local level housing finance institutions and state level institutions.

The Government of India, through the Ministry of Urban Development has initiated the work to establish the NHB on a priority basis. At the state level, the Government of Maharashtra has also initiated work in this direction, based on studies undertaken on its behalf by the Society for Development Studies. Amongst the other States that have shown interest and/or have taken some steps to develop new housing finance strategies are Tamil Nadu, Kerala, Orissa and Karnataka. I feel that during the next five to six years, seven

*Director, Society for Development Studies, New Delhi.

to eight state level home loan institutions will start operating in the country.

In this emerging housing finance scenario, there are a few issues that need to be considered and I propose to examine the two of them, namely:

1. whether the existing institutions can, if necessary, with some strengthening of their capability, deliver the goods needed, or new institutions are needed for the purpose; and
2. will the new housing finance system result in any additionality of resource mobilisation, or will there be only a re-allocation of resources that would have been ordinarily mobilised without the new institutional development.

RATIONALE FOR NEW INSTITUTIONS

LIC, GIC, UTI and Banks

A very relevant question is whether the existing institutions can deliver the goods at the national and state levels, which the proposed NHB and state level home loan institutions will seek to deliver. A study of the activities and future programmes of general savings and investment institutions that take an interest in housing clearly suggests that it will be an imprudent policy for the housing sector to depend on them. The primary objective of the LIC and the GIC is to provide a protective umbrella to the individual policy holder and housing finance is only a supplementary activity, promoted by their desire to support social-oriented activities, amongst which housing is included. The predominant position of the insurance sector and, in particular the LIC, is a clear reflection of the underdeveloped nature of the Indian housing finance market. The UTI is a new entrant in the housing finance market but it cannot be expected to play the major role. Its well established and extensive infrastructure facilities can be extremely useful for jointly promoting savings schemes of new home loan institutions all over the country. The commercial banks, similarly, cannot be expected to provide long-term housing finance on a massive basis as their main thrust is in the field of short-term and

medium-term credit. Also, their loans on commercial rate of interest will be not easily affordable to the people and a programme of highly subsidised credit is undesirable, uneconomic and highly restrictive in coverage.

The specialised housing finance instiutions are, *a prioi*, more suitable but I feel that it will not be desirable to burden them with additional responsibilities. The mass-scale savings mobilisation and home loan activities, as envisaged in the Seventh Plan, will require a different approach and ethos than what has been shown by the existing housing finance intermediaries.

The HUDCO Alternative

The HUDCO has been active for over one and a half decade. It has done commendable work in financing public housing programmes for the weaker segments of the population in facilitating the housing activities of public sector agencies like the housing boards and development authorities and cooperative sector and in stimulating infrastructure development work of public agencies at the state and local levels. These are, basically, 'wholesale' credit activities and the applicant is generally an established public agency which is supported by the state government. The operational norms of the assisted public agencies are comparable and the HUDCO has, overtime, developed standard guidelines for these activities. Home loan activity is quite a different cup of tea. It has to be on a 'retail' basis and requires a different approach for applicants belonging to different economic groups, regions and engaged in different types of economic activities in the organised as well as in the non-organised or informal sectors. The approach will have to rotate amongst other things, the eligibility criteria, repayment system and resource mobilisation. The HUDCO has not shown ingenuity in resource mobilisation. It is basically a secondary mobiliser of resources, mobilising them from other institutions, both the primary mobilisers and the secondary mobilisers. It is unlikely that it has succeeded to mobilise resources that in the absence of an institutional level resource, mobilisation, would have largely been consumed and/or left latent in the economy. Hence, due to

its present resource mobilisation policy, based on inter-institutional financial flows, the HUDCO will also not be able to provide home loans at a rate that will be easily affordable to the majority of the people, without a large element of subsidy.

To undertake home loan activities on a mass basis, it is necessary to develop new instruments to promote the savings as has been emphasised by the Seventh Plan. To quote the plan, "mobilisation of resources for the housing sector would have to come in a large measure at the local level from households" (p. 295). The HUDCO can develop the expertise for these activities in the future. But, will this be desirable? This is an important issue for there are other equally important activities that it can do in the Seventh Plan perspective. Infrastructure development is a critical pre-requisite for any successful urban and housing programme and with its expertise in these areas, it may be desirable for it to take up such work in a more substantial manner than in the past. In fact, with the Seventh Plan proposal to set up a National Urban Infrastructure Development Finance Corporation with an initial seed capital of Rs. 55 crore (Rs. 25 crore for urban development and Rs. 30 crore for water supply and sanitation), the role of the HUDCO in these sectors can be expected to grow.

At the same time, with the development of home loan institutions all over the country and the proposed strategy that public sector housing should increasingly concentrate only on weaker section housing and skeletal housing, the financial needs of the public housing agency programmes will be falling. There is also going to be a change in the resource mobilisation strategies of the public housing construction institutions. Instead of first raising finances from other financial institutions like the LIC, the GIC, the UTI and the HUDCO, then constructing the dwelling units and selling them to the individual on hire-purchase instalment and outright sale basis, it is likely that they may directly raise the finances from the individual who will be having an access to institutional home loan to meet a substantial proportion of the cost of his house. The demand for infrastructure work, on the other hand, can be expected to rise significantly when the

private housing programmes will be undertaken at a faster pace with the availability of home loans.

In the perspective of this type of emerging scenario that I visualise, it may be desirable that the HUDCO be strengthened to take up the responsibilities of the apex urban infrastructure finance corporation.

The Role of HDFC

The HDFC is another potential candidate. In less than a decade of operations, it has proved that home loan business is not only a viable activity but also a highly profitable one. The mass invasion of private sector companies, mainly promoted by builders and land developers, in the field of housing finance is a tribute to the success of the HDFC. The composition of the HDFC's operations and its functional strategies do not, however, give the confidence that it can take up the responsibilities of the NHB. In the first place, its activities are concentrated in the metros and large cities, though on record, it has given some home loans in more than 200 towns. It is unlikely that in the next five to six years, the thrust of HDFC's operations is going to change to any marked degree due to its need to remain high profit organisation and the inherent risk of going to sectors on which much data and information presenty exists.

Secondly, as the Seventh Plan has observed the "HDFC would continue to cater to the clientele coming largely from fairly well-to-do sections of the society (p. 293), who have regular and secured incomes and are 'credit worthy' in terms of conventional banking norms. It has made some contribution to financing low-income housing activities, but only on the basis of subsidised finance from commercial banks on the Reserve Bank of India's directives and support from international agencies, though in the latter case, the definition of low-income household is different from that used by the government. Thirdly, the HDFC finances, on the average, constitute about two-fifths of the total cost of the house, which in the case of low-income households may be on the low side.

Fourthly, an important issue is the total cost of the home loan and this will be a policy issue on which the NHB and

state level housing finance institutions will have to give much consideration. The normal rate of interest charged by the HDFC ranges from 12.5 per cent to 14.5 per cent but the effective rate depends on the computation of the repayment instalment (EMI). The composition of the EMI is so heavily biased in terms of the interest component and includes a very small proportion of capital repayment in the early years, that it reminds me of the extreme examples of the conventional money lender who is interested in the regular receipt of his interest and would be happy if the capital remains intact in the hands of the borrower. It will be necessary that the NHB and state housing finance institutions to review this practice and work out the economics of alternative composition of EMI and recovery systems.

Fifthly, a closely related issue which also raises the effective cost of the home loan is the payment of a pre-EMI, before the full home loan is disbursed. The pre-EMI contains only the interest on the disbursed loan amount and does not contain any element of capital repayment. The cost becomes exhorbitant if the period of pre-EMI payment is long, as is likely to happen if there are delays in construction of the house, as the last loan instalment is realeased prior to the possession of the dwelling unit. To the extent that the individual has no control on the pace of house construction, the individual is punished for the faults of the construction agency, which may be a public housing agency, a private builder or a cooperative society. The seriousness of this problem comes out when we examine the amount of the pre-EMI when, say 90 per cent of the loan is disbursed and the EMI when 100 per cent of the loan is disbursed. Thus, for example, on a home loan of Rs. 1,50,000 for a 12 year period, the pre-EMI on 90 per cent loan disbursement is Rs. 1,635 and the EMI on 100 per cent loan disbursement is Rs. 2,255.

In order to release the borrower from the burden of indefinite payment of the pre-EMI, the HDFC sometimes provides an option to the borrower to accept the last instalment which it places in a Fixed Deposit to be released at the time when the final instalment has to be paid to the builder. There is, however, a catch in this facility. The borrower receives from the HDFC a rate of interest of 9.5 per cent to

10.5 per cent, depending on whether the FD is for six or 12 months but has to pay to the HDFC a rate of interest which provides a margin which is higher than ordinarily available to it under the Deposit linked loan scheme.

Another issue concerns the commitment charge which a borrower has to pay at the rate of one per cent of this undisbursed amount nine months after the date of sanction of loan. This policy places additional strain when the borrower may not be responsible for the failure to utilise the full loan within the period that does not entail a commitment charge. The policy seems to be unreasonable when the undisbursed loan amount remains in the coffers of the financial institution. It will be necessary that the NHB and state housing institutions take into account the operational problems that the premier home loan institution in the private sector has encountered relating to composition of EMI, the pre-EMI, commitment charge, full disbursement of loan, etc.

The Cooperative Societies and the Housing Boards

The cooperative housing finance societies have not exhibited any innovativeness in their activities. For their resources, they seem to remain mortgaged to the annual releases from the LIC, the GIC and the HUDCO. Also, the choice of a house is, at the level of the home owner, restricted to one constructed by a cooperative housing society. Hence, in the emerging housing finance scenario, the cooperative finance sector cannot play the role of the apex home loan institution at the national or state level. It can, however, provide a strong component to the financial system, especially if it adopts more dynamic resource mobilisation policies, recovery system and monitoring system.

At the State level, there is a feeling in some quarters that the housing boards may also take up the functions of a home loan bank. This would not be a desirable policy. In the first place, house construction and home loan activities are two specialised functions and require different temperament and approach. Secondly, if the functions are integrated in one institution, there will be, *a priori*, a bias towards financing housing stock of the housing board. Thirdly, with the creation of local level home loan institutions and the increasing

role of private sector house construction, the home loan system should be developed independently of public housing construction programme.

ADDITIONALITY IN RESOURCE MOBILISATION

An important reason for creating the NHB and state housing finance institutions is the definite possibility of mobilising resources that may have largely remained outside the stream of savings mobilised for productive activities. Housing is one activity for which people are ready to make large sacrifices and save from their current incomes. A recent study undertaken on behalf of the Government of Maharashtra for their proposed state level housing finance institution has shown a significant potential for mobilisation of savings from households engaged in both the formal and the informal sectors in different towns of the State.† The study also indicates the keen desire of the people to save in acticipation of an institutional home loan.

Maharashtra study reveals that the savings rate of informal sector households in Maharashtra is as high as 27.4 per cent and of formal sector households 25.2 per cent if we examine the difference between normal monthly income and normal monthly household expenditure. However, if periodic lump-sum expenditures that Indian households have to incur on religious and social ceremonies, marriages, medical treatment, long travels, etc., are also taken into account and deducted from normal monthly income, even then the net savings rates are considerable; between nine and 10 per cent for the State and considerably higher in some of the individual towns, and in selected age and income groups.

It is likely that the situation in other parts of the country may be either similar or may differ from what has been observed in Maharashtra. In view of this, a comprehensive study is being undertaken on behalf of the Ministry of Urban Development, Government of India to examine the economic

†Vinay D. Lall, *Economic Status of Households in Maharashtra and Policies for the Specialised Housing Finance Institution*, Society for Development Studies, 1985.

status of households in different part of the country to build the data base for formulating new savings instruments to mobilise savings that, in the absence of these schemes, would ordinarily get consumed or remain in the form of non-financial assets. Such potential savings lie outside the scope of the existing saving schemes. The study also hoped to help the formulation of new norms on eligibility criteria, computation of the repayment schedules, valuation of possible non-conventional collatoral for a some loan, etc.

Appendix

LIST OF THE PARTICIPANTS

1. DR. ARUN KUMAR, Assistant Professor of Economics, Jawaharlal Nehru University, New Delhi.
2. SHRI AROMAR REVI, Head, Shelter Group, Development Alternatives, 22, Palam Marg, New Delhi.
3. SHRI K.L. ATHALYE, Financial Adviser and Chief Accounts Officer, M.P. Housing Board, Bhopal.
4. PROF. H.P. BAHRI, Head of the Department of Housing, School of Planning and Architecture, New Delhi.
5. SHRI H.U. BIJLANI, Formerly Chairman and Managing Director, HUDCO, C1/15, Ansari Nagar, New Delhi.
6. PROF. P.R. BRAHMANANDHA, Visiting Professor, Delhi School of Economics, University of Delhi, Delhi.
7. SHRI C.S. CHANDRASEKHARA, Chief Town Planner, (TCPO) (retd.), E-255, East of Kailash, New Delhi.
8. SHRI I. CHAUDHURI, Joint Secretary (H & HS), Ministry of Urban Development, Government of India, New Delhi.
9. PROF. RAJA J. CHELLIAH, Member, Planning Commission, Yojana Bhavan, New Delhi,
10. SHRI A. CHATTOPADHYAY, Manager (Finance), Unit Trust of India, 13, New Marine Lines, Bombay.
11. SHRI HN. DUBE, Chief Engineer, Lucknow Development Authority, 6, Jagdish Chandra Bose Road, Lucknow.
12. MRS. SARALA GOPALAN, Secretary, Revenue and Housing, Government of Kerala, Trivandrum.
13. PROF. D.B. GUPTA, Institute of Economic Growth, Delhi University, Delhi.
14. SHRI L.C. GUPTA, Managing Director, CIDCO Ltd., Nirmal, Nariman Point, Bombay.

15. SHRI S.D. HOSANGADI, Joint Chief Officer, Industrial and Export Credit Department, Reserve Bank of India, Bombay.
16. SHRI H.C. JOSHI, General Manager, Delhi Cooperative Housing Finance Society, YMCA Cultural Centre, Jaisingh Road, New Delhi.
17. SHRI ASHOK KHOSLA, President, Development Alternatives, 22, Palam Marg, New Delhi.
18. PROF. T. KRISHNA KUMAR, Indian Institute of Management, Bannerghatta Road, Bangalore.
19. SHRI A.N. KRISHNAMURTHY, Senior Project Appraisal Officer, HUDCO, HUDCO House, Lodhi Road, New Delhi.
20. DR. V.D. LALL, Director, Society for Development Studies, B-7, Safdarjung Enclave Extension, New Delhi.
21. PROF. GAUTAM MATHUR, Director, Institute of Applied Manpower Research, New Delhi.
22. SHRI G.C. MATHUR, Director, National Building Organisation, Ministry of Urban Development, Nirman Bhavan, New Delhi.
23. MS. BANASHREE C. MITRA, Assistant Professor of Housing, School of Planning and Architecture, IP Estate, New Delhi.
24. SHRI K.K. PANDEY, Research Officer, National Institute of Urban Affairs, 11 Nyaya Marg, Chankyapuri, New Delhi.
25. DR. B.L. PANDIT, Faculty Economics, Motilal Nehru, College, University of Delhi, Delhi.
26. MR. PATRICK CROOKE, Associate, Institute for Housing Studies, Rotterdam, Holland, presently Visiting Fellow, Institute for Human Settlements, F-212, Asian Games Village Complex, New Delhi.
27. SHRI R.N. PRASHER, Chief Administrator, Haryana Housing Board, Sector-8, Chandigarh.
28. SHRI RAMESH CHANDRA, Secretary, Ministry of Urban Development, Government of India, Nirman Bhavan, New Delhi.
29. SHRI RAKESH KUMAR, AAO, Ministry of Urban Development, Nirman Bhawan, New Delhi.

30. SHRI C. RAJAGOPALAN, Secretary (Investment), Life Insurance Corporation of India, Central Office, Bombay.
31. SHRI C.S. RAO, Deputy Secretary, Ministry of Urban Development, Government of India, Nirman Bhavan, New Delhi.
32. SHRI J.S. RAO, Income Tax Appellate Tribunal, Ministry of Finance, Lok Nayak Bhavan, New Delhi.
33. SHRI C.B. RAJEEV, Deputy Secretary, Ministry of Finance, Department of Expenditure, Government of India, New Delhi.
34. DR. SHYAM NATH, Fellow, National Institute of Public Finance and Policy, New Delhi.
35. SHRI S.K. SHARMA, Chairman and Managing Director, HUDCO, HUDCO House, Lodhi Road, New Delhi.
36. SHRI S.K. SHIVNANI, Deputy Director, National Building Organisation, Ministry of Urban Development, Government of India, Nirman Bhavan, New Delhi.
37. SHRI M. SIVARAMAKRISHNA, Branch Manager, Housing Development Finance Corporation Ltd., 101, Moghul's Court, Deccan Towers, Basheer Bagh, Hyderabad.
38. SHRI K. SRINIVASAN, Consultant, National Institute of Public Finance and Policy, New Delhi.
39. SHRI V.V. SUBRAHMANYAM, Senior Sociologist, Town and Country Planning Organisation, E Block, Vikas Bhavan, IP Estate, New Delhi.
40. SHRI P.S.A. SUNDARAM, Administrator, Maharashtra Housing and Area Development Authority, Grihanirman Bhavan, Bombay.
41. SHRI S. THIRUMALAI, Financial Adviser and Chief Accounts Officer, Tamil Nadu Housing Board, 35, Annai Salai, Nandanam, Madras.
42. SHRI S.T. VEERA RAGHAVAN, Joint Secretary and Financial Adviser, Ministry of Urban Development, Government of India, Nirman Bhawan, New Delhi.

43. SHRI M.K. VENKATACHALAM, Financial Adviser, Housing Development Financial Corporation (Ltd.), Palika Bhawan, R.K. Puram, New Delhi.
44. SHRI D.L. VERMA, Managing Director, Uttar Pradesh Sahkari Avas Sangh (Ltd.), 6 Sarojini Naidu Marg, Lucknow.
45. SHRI RAM S. VARMA, Commissioner and Secretary, Housing, Government of Haryana, Chandigarh.

IIPA Faculty

46. DR. K.L. CHAWLA
47. PROF. A. DATTA
48. SHRI RAKESH GUPTA
49. DR. G. JHA
50. MRS. M. LAKSHMISWARAMMA
51. SHRI D.D. MALHOTRA
52. SHRI RAJ NANDY
53. DR. M.K. NARAIN
54. PROF. KAMTA PRASAD
55. DR. K.S.R.N. SARMA (Workshop Coordinator)
56. DR. S.S. SINGH
57. MISS SUJATA SINGH
58. DR. R.K. WISHWAKARMA